tesma

growth through innovation

tesma international inc.

1999 annual report

growth through innovation

Tesma is a global supplier of highly engineered engine, transmission and fueling systems and components for the automotive industry. Tesma's strong market presence and strategy for continuing growth results from our unique focus on **innovation, engineering** and **performance.** Tesma employs over 3,700 employees in North America, Europe and Asia in 23 manufacturing facilities and 2 research centres. Since 1992, Tesma's sales have grown at an annualized compound rate of 27%.

annual meeting of shareholders

10:30 a.m., Thursday, December 2, 1999

2nd Floor Ballroom, Royal York Hotel

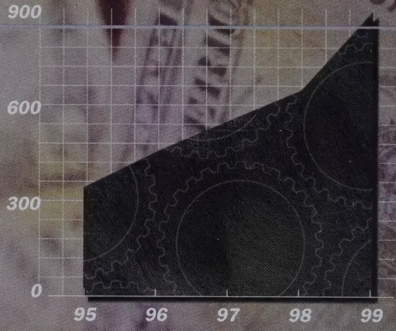
100 Front Street West, Toronto, Ontario, Canada

contents

financial accomplishments

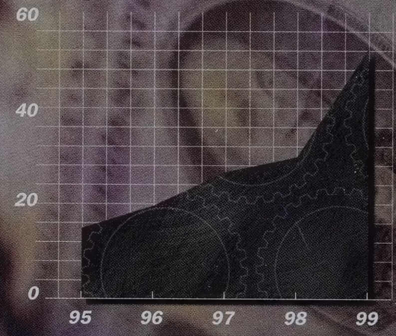
record sales

↑38%



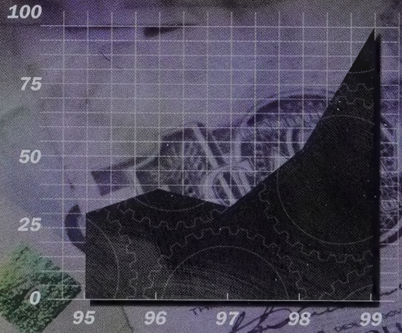
record net income

↑76%



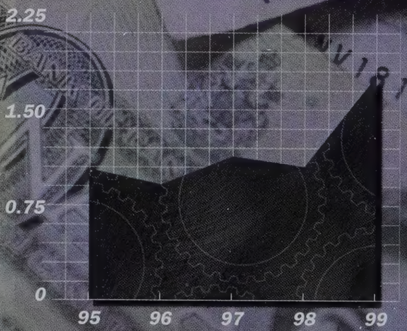
record operating cash flow

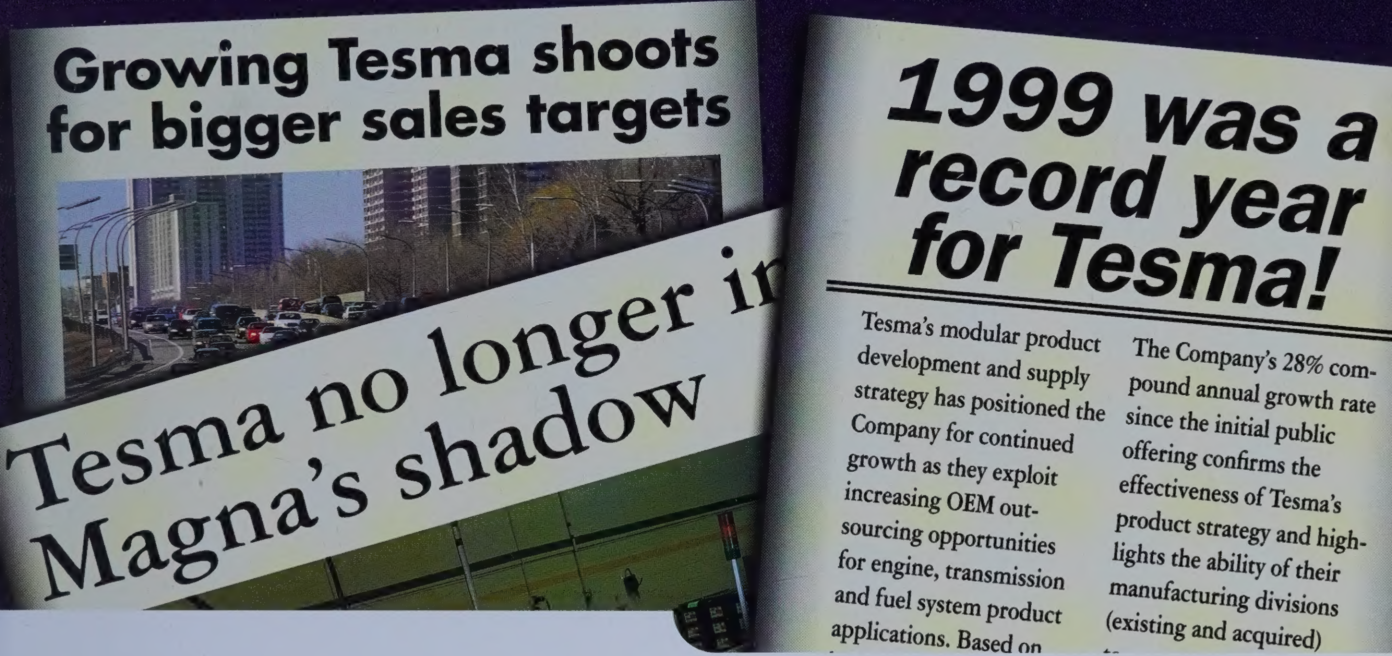
↑80%



record EPS

↑68%





	growth	1999	1998
for the year		***canadian dollars in millions***	
Sales	+ 38%	$ 893.7	$ 645.9
Income before income taxes	+ 68%	$ 84.5	$ 50.3
Net income	+ 76%	$ 52.3	$ 29.7
Net income attributable to Class A Subordinate Voting and Class B shares	+ 95%	$ 52.3	$ 26.8
Operating cash flow	+ 80%	$ 93.8	$ 52.0
Capital expenditures	+ 7%	$ 69.7	$ 65.0
at year end			
Cash		$ 78.6	$ 44.0
Total assets		$ 607.3	$ 399.3
Long-term debt		$ 82.3	$ 14.0
Shareholders' equity		$ 303.5	$ 261.5
per share			
Earnings per Class A Subordinate Voting Share or Class B Share			
Basic	+ 61%	$ 1.83	$ 1.14
Fully diluted	+ 68%	$ 1.76	$ 1.05
Average number of Class A Subordinate Voting Shares and Class B Shares outstanding *(in millions)*			
Basic		28.5	23.4
Fully diluted		30.1	30.0
Dividends paid per Class A Subordinate Voting Shares or Class B Shares	+ 41%	$ 0.31	$ 0.22
Book value per Class A Subordinate Voting Share or Class B Share	+ 16%	$ 10.61	$ 9.17

message to

"1999 proved to be an exceptional year for Tesma International Inc."

We reported record sales of $893.7 million, record net income of $52.3 million and record earnings per share of $1.76 on a fully diluted basis. These results allowed us to extend to 16, the number of consecutive quarters (on a year-over-year basis) of increased revenues and operating income dating back to Tesma's establishment as a public company in July 1995.

"Tesma's management remains committed to increasing shareholder value through the continued focus on operational excellence, a strong balance sheet and superior financial results"

Despite these accomplishments and Tesma's excellent performance relative to our automotive supplier peer group during 1999, our year-end Class A share price of $20.20 was disappointingly "flat" versus a year ago. While we recognize that we cannot control industry and market factors that affect share price performance, Tesma's management remains committed to increasing shareholder value through the continued focus on operational excellence, a strong balance sheet and superior financial results. Our exclusive commitment to the automotive industry and unwavering dedication to **Innovation, Engineering** and **Performance** will foster Tesma's success in this regard.

Our 1999 financial and business results clearly confirm the validity and appropriateness of our modular and technologically advanced product supply strategy for powertrain and fuel systems applications. Management believes that the "systems" integration of components and modules by technically advanced automotive suppliers like Tesma, will continue to be the significant driver of growth in our product areas, as the outsourcing and assembly of complete engines or transmissions remains unlikely on a significant scale for the foreseeable future. The increased outsourcing by automotive OEMs around the world will continue to provide significant opportunities to supply modules and value-added assemblies for engine, transmission and fuel systems applications. Tesma has identified and capitalized on those opportunities which utilize our capabilities and areas of expertise through the adoption of our systems-specific product strategy. The benefits of this strategy continue to move Tesma up the "value chain" for each of the products that we design, engineer, manufacture, assemble and ship to our customers around the globe. With a manufacturing presence in each of the world's three major automotive markets – North America, Europe and Asia – Tesma is, based on our relative size in the industry, one of the most geographically diversified automotive suppliers in the world.

"The benefits of this strategy continue to move Tesma up the "value chain" for each of the products that we design, engineer, manufacture, assemble and ship to our customers around the globe"

Tesma is poised to surpass $1 billion in sales during 2000

shareholders

Tesma has made great strides during our four year history as a public company. Based on booked business, Tesma is poised to surpass $1 billion in sales during 2000. We view this milestone as not only the attainment of a significant objective for business growth, but also as a strong starting point for the new Millennium. Tesma is a company only beginning to realize the potential of its carefully crafted strategy. We are well on the way to reaching our goal of becoming the recognized global leader of technology-based engine, transmission and fuel system products.

"Tesma is a company only beginning to realize the potential of its carefully crafted strategy"

As Tesma continues to grow, we will, during 2000, continue to refine our operating and management structures within our worldwide organization. Based on Tesma's Engine, Transmission and Fuel Systems product groups, we are establishing "lead" facilities and developing North American group general managers to implement our specific product strategies on a co-ordinated global basis. These changes will assist in the alignment of each group's product strategy, without the unnecessary duplication of engineering, development or testing resources. They will not, however, unduly affect or restrict the ability of Tesma's divisional general managers to manage their autonomous production facilities within the framework of the Tesma Employee's Charter and the Company's overall "clean and lean" manufacturing approach. Our dedicated management teams in Europe and Asia will ensure that full and effective communication of complementary activities, including research and development initiatives, occur with their North American counterparts.

"Tesma remains well positioned to take advantage of the current and future opportunities in the Engine, Transmission and Fuel Systems product areas"

As a result of Tesma's demonstrated leadership in product development and manufacturing capabilities, the strength of our international sales, engineering and project management resources, and our continuing commitment to **Innovation, Engineering** and **Performance,** Tesma remains well positioned to take advantage of the current and future opportunities in the Engine, Transmission and Fuel Systems product areas across the global automotive industry.

The results and success enjoyed by Tesma could not be achieved without the efforts and support of the Company's 3,700 employees around the world. On behalf of management and our board of directors, we thank all Tesma employees for their contributions throughout 1999, and look forward to the continuation of this high level of performance in 2000 and beyond.

Manfred Gingl
President and
Chief Executive Officer

Anthony E. Dobranowski
Executive Vice President and
Chief Financial Officer

tesma at a glance

north america

Tesma's North American operations provide engine, transmission and fueling components and assemblies to over 100 OEM customers and their Tier 1 suppliers around the globe. These operations have 2,670 employees located in 14 manufacturing facilities (11 in Ontario, 2 in Michigan, 1 in Nova Scotia), 1 research centre and the corporate headquarters, both in Ontario. In 1999, these operations generated sales of $666 million, an increase of 43% over 1998, and operating income of $72.8 million, an increase of 46% over 1998.

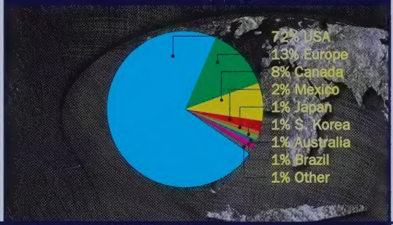
highlights

October 1998	Acquired Triam Sterling Heights, a US based manufacturer of powertrain components for North American OEMs.
November 1998	Completed the amalgamation of two small pulley plants into a new state-of-the-art facility.
December 1998	Transmission servo piston assembly contract awarded to Nova Scotia facility, doubling sales.
February 1999	Commenced commercial production at the new water pump facility in Ontario.
July 1999	Die casting facility named GM Supplier of the Year and Litens Automotive Partnership received Honda's highest award for engineering excellence.

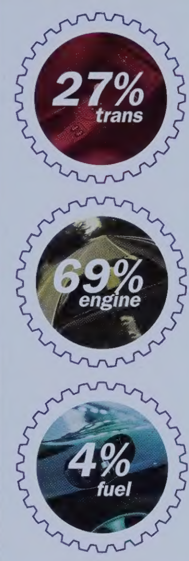
key statistics

	1999	1998	1997
sales	**$ 665.6**	$ 466.5	$ 416.8
operating income	**$ 72.8**	$ 49.9	$ 39.5
fixed assets	**$ 184.6**	$ 141.9	$ 103.0
facilities	**14**	13	12
employees	**2,670**	2,097	1,928

destination of sales



sales by product



europe

Tesma's European operations provide engine, transmission and fueling components and assemblies to over 75 OEMs and their Tier 1 suppliers around the globe. These operations have 860 employees located in 7 manufacturing facilities (3 in Germany, 2 in Austria, 1 in France and a joint venture in Spain), 1 research centre in Austria and separate sales offices in the United Kingdom and Italy. In 1999, these operations generated sales of $216 million, an increase of 18% over 1998, and operating income of $11.7 million, an increase of 22% over 1998.

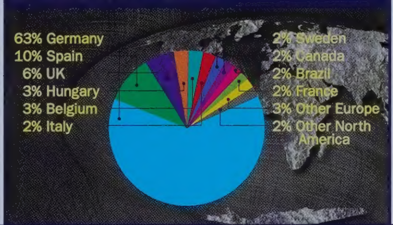
highlights

November 1998	Secured first "capless" or "comfort" refueling contract with a major European OEM.
December 1998	Established an aftermarket company in the European market to meet specific product demands.
January 1999	Established a dedicated transmission systems product research centre in Austria.
March - May 1999	Received key production contracts for various engine and fueling product lines.

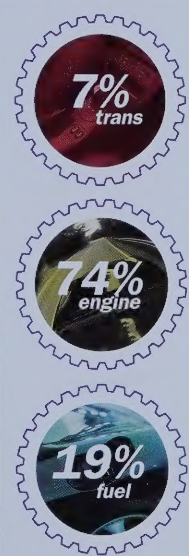
key statistics

	1999	1998	1997
sales	**$ 216.4**	$ 183.5	$ 139.1
operating income	**$ 11.7**	$ 9.6	$ 6.2
fixed assets	**$ 52.5**	$ 44.6	$ 35.4
facilities	**7**	7	7
employees	**860**	840	763

destination of sales



sales by product



asia/south america

Tesma's Asian operations provide engine and transmission components and assemblies to over 10 OEM customers around the globe. These operations have 174 employees located in 2 manufacturing facilities in South Korea and sales and engineering offices in South Korea, Japan and South America (Brazil). In 1999, these operations generated sales of $17.5 million. Currently, all sales to South American customers are made from facilities in North America and Europe.

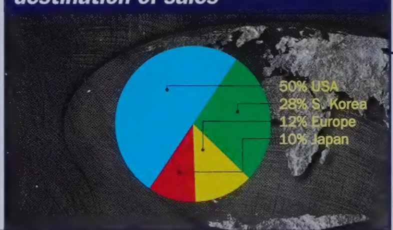
highlights

January 1999	Completed the acquisition of Hanwha Automotive Components Corporation ("HACC"), a South Korean manufacturer of oil and water pumps for customers in Asia, North America and Europe.
June 1999	Commenced commercial production of the new Ford FN oil pump from HACC's Asan facility.
June 1999	Completed post-acquisition restructuring of HACC's long-term debt on more favourable terms.

key statistics

	1999	1998	1997
sales	**$ 17.5**	$ -	$ -
operating income	**$ -**	$ (0.1)	$ -
fixed assets	**$ 39.2**	$ -	$ -
facilities	**2**	-	
employees	**174**	4	-

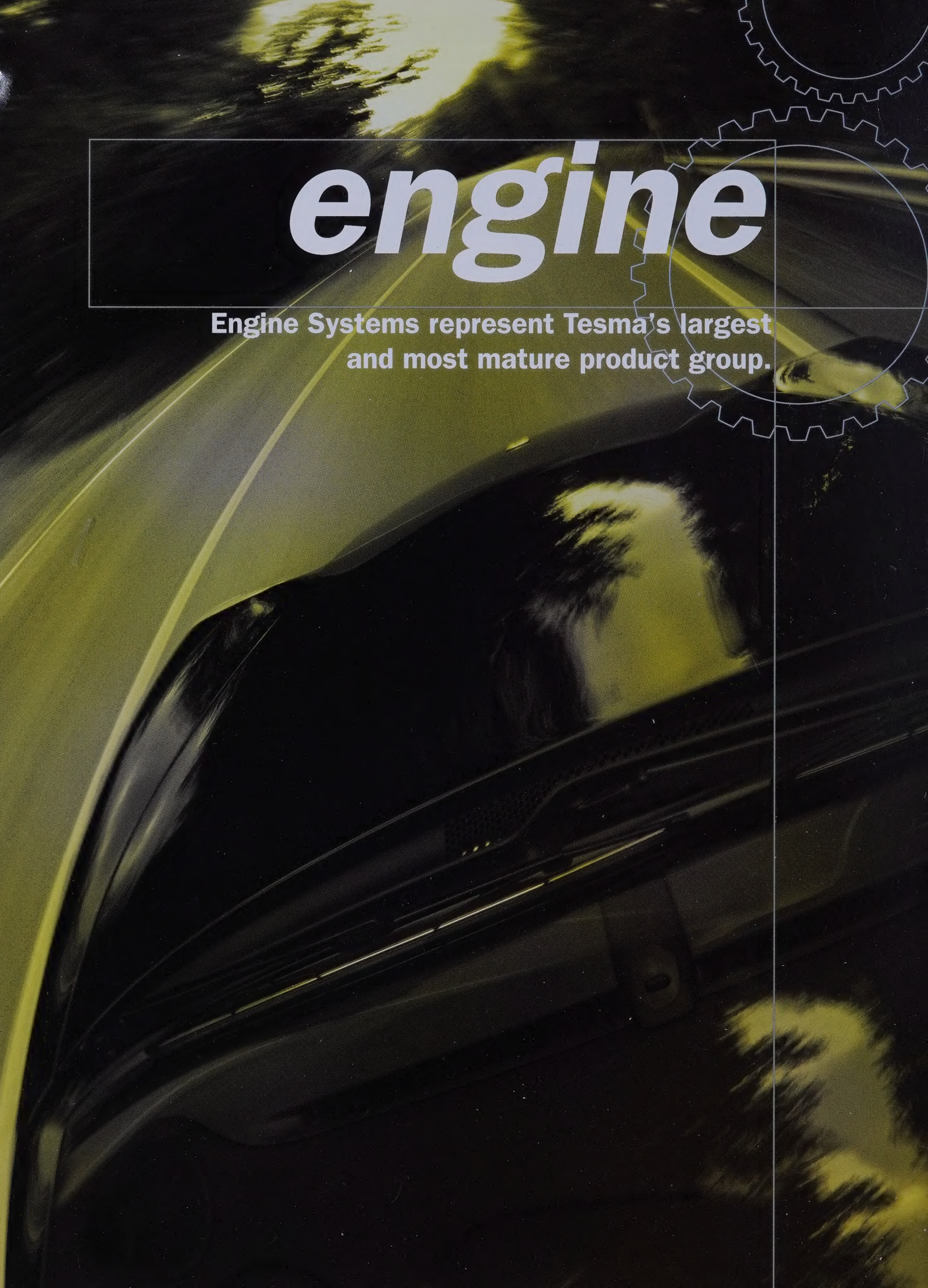
destination of sales



sales by product

engine

Engine Systems represent Tesma's largest and most mature product group.



Tesma's Engine Systems business is based on our industry leadership in pulley and accessory drive system products, including the "full service" systems capabilities of Litens Automotive.

More recently, Tesma has commenced the high volume production of oil and water pumps, aluminum die cast and machined oil pans and cam covers, overrunning alternator decouplers and a variety of other engine related products. These new product offerings, combined with the expansion of the Litens tensioner business in the automotive aftermarket and the heavy truck market, contributed to the 26% increase in revenues of Tesma's Engine Systems products over last year.

Of particular noteworthiness in 1999 was the flawless start-up of commercial production at ICD, our dedicated water pump division, which over the last 6 months has produced and shipped its 1 millionth water pump assembly.

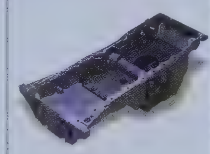
Tesma's product engineering and development capabilities, long the cornerstone of our Engine Systems business, continues to be recognized by our customers. During 1999, Tesma was awarded our first production order for a balance shaft assembly, as well as multiple contracts for our unique injection moulded plastic water management system products. Our engine cover module - a die cast and machined aluminum cover with integrated water and/or oil pumps, tensioner, pulleys and other accessory drive system products - continues to gain market acceptance. During 1999, Tesma was awarded a "rear mounted" engine cover module program for an upcoming luxury vehicle application.

The emphasis on the development of technologically advanced products and modular systems, together with a disciplined expansion into new markets, will continue to form an integral part of Tesma's strategy for maintaining and growing our Engine Systems business.

1. Gen III water pump assembly
2. Line 6 oil pan assembly
3. 2.0L integrated tensioner assembly
4. 2.0L water outlet assembly

1.

2.



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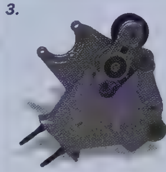

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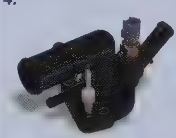


ICD - Gen III water pump assembly line

trans

Transmission Systems represent Tesma's fastest growing product group.

MAPC - FN oil pump and machining assembly line

Tesma's Transmission Systems business increased its sales in 1999 by 97% over last year. More importantly, our portfolio of advanced transmission products more than doubled.

New Transmission Systems products acquired or developed during 1999 include stamped transmission oil pans, proprietary torque converter damper plate assemblies, oil pumps, servo piston assemblies and flow-formed clutch housings.

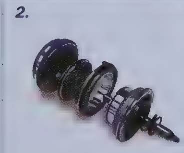
Excellent product launch performance was demonstrated throughout 1999 at various Tesma divisions producing Transmission Systems products. PFC, our plant on the east coast of Canada, was sourced and launched, within an accelerated six month timeframe, a servo piston assembly that will generate in excess of $30 million in incremental annual revenues. Successful product launches at other divisions also included die-formed clutch housings, reaction shells and transmission oil pumps, all products that traditionally have been produced in-house by our OEM customers.

During 1999, Tesma was successful in expanding our Transmission Systems products onto new "continuously variable" transmissions (CVTs) that OEMs intend to introduce in volume in North America and Europe to improve fuel economy in light vehicle applications. Tesma was awarded production contracts for die-formed clutch housings, cylinders and plungers, oil pans, torque converter damper plate assemblies, and die cast and machined aluminum covers across a number of different CVT applications.

Tesma anticipates continued strong growth in our Transmission Systems business as we expand our engineering, testing and manufacturing capabilities on a global basis, and continue to take advantage of the increasing outsourcing opportunities for transmission-related modules and products.

1.

2.



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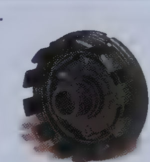


4.

1. FN transmission oil pump
2. 4L60E servo piston assembly
3. Mercedes clutch housing
4. 4T65E reaction shell


fuel
Fuel Systems provide significant growth potential for Tesma.

Tesma's Fuel Systems business enjoyed a 26% sales increase in 1999 over last year, with further growth forecasted as new products are developed and introduced in the North American and European automotive markets.

Tesma's thin walled, stainless steel "cap-to-tank" refueling module has been successfully adopted in both Europe and North America. Offering a lightweight non-corrosive "zero" emissions capability and full recyclability, the Tesma refueling module demonstrates numerous advantages over existing blow moulded plastic or low carbon coated steel alternatives. In Europe, DaimlerChrysler selected Tesma to supply the "on-board refueling vapour recovery" (ORVR) fuel filler modules for all exported Mercedes Benz vehicles. In North America, Tesma was awarded two production contracts for hydroformed stainless steel fuel filler modules for a 2002 model year sport utility and a 2003 light truck application. Active prototype and development programs are also ongoing with three other OEMs.

Tesma's "capless" or "comfort" refueling development gained important market acceptance in Europe during 1999. Tesma was sourced our first production application of the comfort refueling module for the upcoming redesign of a European luxury sedan. Additionally, Tesma is actively developing comfort refueling technology for four other European vehicle manufacturers. In North America, Tesma's capless valve inlet system (PSR), a development that essentially replaces the traditional fuel cap by transferring all valving functionality from the cap to the "on-board" fuel filler inlet, is being examined for potential application across multiple vehicle platforms.

Tesma's Fuel Systems strategy continues to involve the use of innovative and technologically advanced products to assist automotive OEMs in meeting the increasingly stringent environmental regulations relating to the containment and management of fuel system emissions.

1. hydroformed stainless steel fuel filler module
2. comfort refueling module
3. S Class fuel filler module

1.

2.

3.

Blau Austria - automated fuel filler assembly line


innovation
Tesma's strategy for continuing growth results from a focus on Innovation, Engineering and Performance.

Modal and frequency testing, indirect stress mapping, part displacement, distortion measurements and thermal analysis are conducted at sub-micron levels on the laser optical bench

Tesma's product strategy is founded on the development and supply of technologically advanced solutions to our customers' current and future powertrain and fuel systems challenges.

To support this strategy and maintain our competitive advantage, Tesma dedicates significant resources to research and development activities. This dedication is reinforced by our Corporate Constitution which requires Tesma to invest no less than 7% of pre-tax income on R&D to ensure the long-term viability of the Company. In 1999, Tesma spent $13.8 million on R&D (16.3% of pre-tax income) to continue the advancement of our unique or proprietary products and processing technologies.

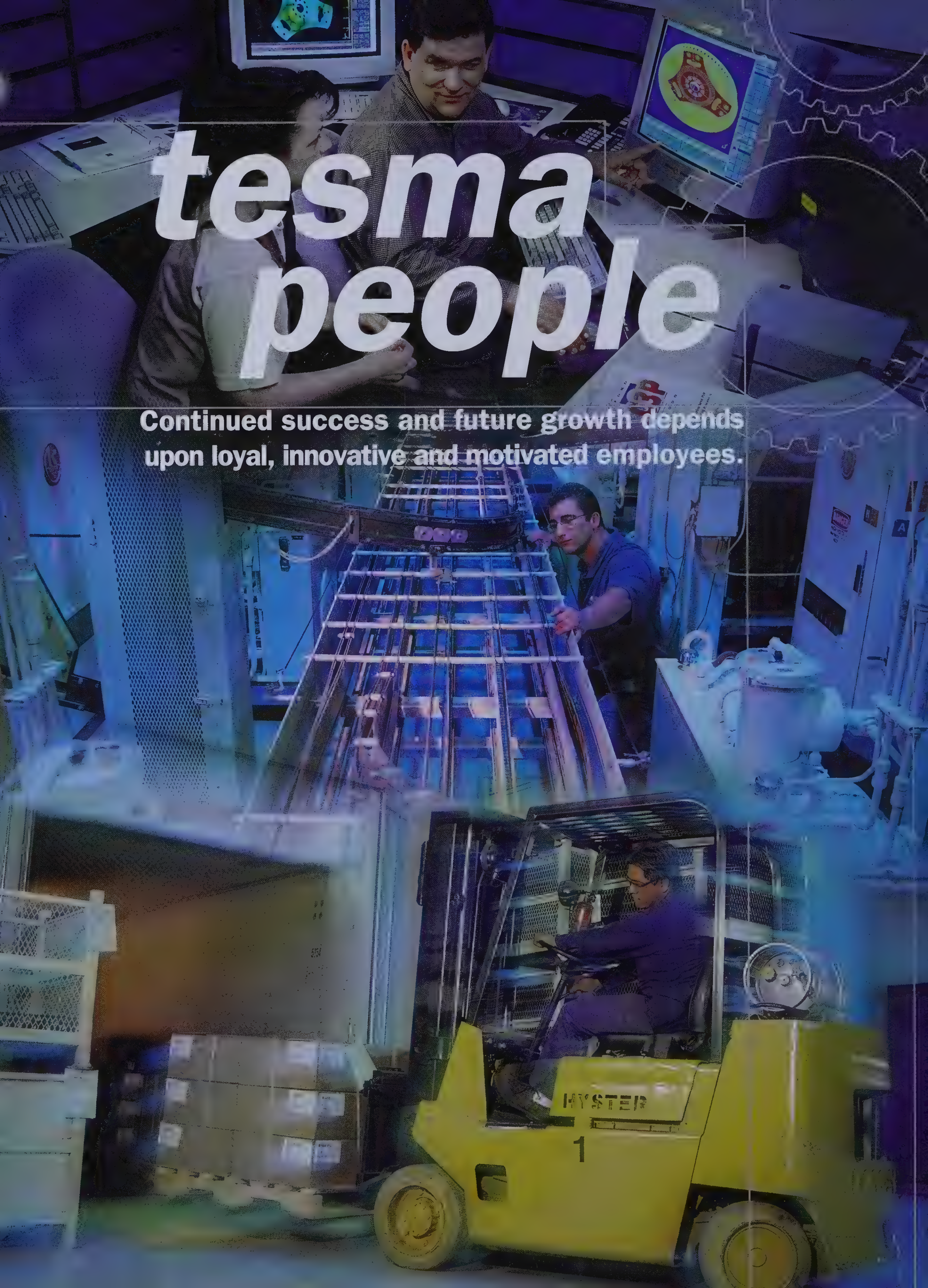
Tesma's research centres in North America and Europe were, during 1999, expanded or established to specifically address the development and commercialization of transmission and clutch-related products and systems. Capital investments in the latest computer simulation software, destructive and non-destructive test equipment and durability testing cells will serve to expedite Tesma's "time to market" for new powertrain products and systems. These initiatives complement Tesma's existing development capabilities in the engine and fuel systems product areas, including the complete engineering, testing and drive systems development resources of Litens Automotive and the advanced fuel product engineering capabilities of Tesma's European R&D centre.

As automotive powertrain and fuel systems evolve, Tesma is determined to remain on the leading edge of change. Our strong engineering and development resources will enable us to do so, and become a recognized technical leader across *all* of our Engine, Transmission and Fuel Systems product lines.

1. on demand 4WD clutch
2. coplaner hi-lo gear set
3. balance shaft assembly

tesma people

Continued success and future growth depends upon loyal, innovative and motivated employees.



With fierce competition in the current labour markets, it is an ongoing challenge to attract, motivate, and retain talented individuals.

Hiring the right people, with the right skills, knowledge and attitude, is vital. It is Tesma's goal to ensure that our Company is recognized throughout the industry as an "Employer of Choice".

Tesma strives to maintain positive employee relations in a workplace environment that is open, fair, safe and healthful. In addition to the rights and benefits provided under the Corporate Constitution and our Employee's Charter, Tesma has implemented a number of initiatives to ensure that our global 3,700 member workforce is informed, motivated and continually upgrading their skills. These initiatives include:

- open communications through monthly employee meetings and the Tesma Quarterly newsletter
- management feedback through revised and updated employee opinion surveys (and corrective action plans)
- enhanced training programs and the introduction of a "Tesma Wide" job-posting policy
- Employee Assistance Programs, including a "Wellness" initiative and "Good For You" newsletter

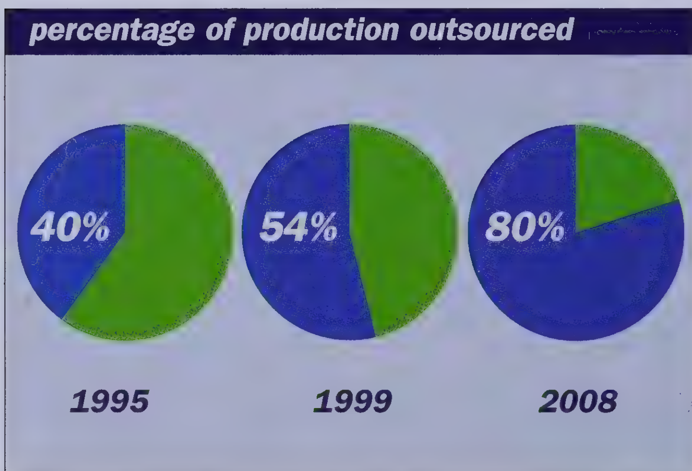
Tesma's Corporate Constitution defines the rights of employees, management and investors to participate in Tesma's profits and growth, encourages technological development and promotes social objectives. Our unique Employee's Charter commits the Company to an operating philosophy which is based on fairness, a concern for people and their workplace environment. These core principles, in conjunction with a decentralized entrepreneurial management philosophy, create an employee atmosphere where dedication and innovation are rewarded. As we approach the next Millennium, it is our mandate to expand on these principles by developing, motivating and recruiting a superior team of well trained and experienced employees to build and support future growth. Tesma has made training and human resource development at all levels a key priority, with a commitment to continuing the "investment" in the people who design, develop, engineer and manufacture our products for our customers around the world.

mda

The following is management's discussion and analysis of the consolidated operating results and financial position of Tesma International Inc. ("Tesma" or the "Company") for the years ended July 31, 1999 and 1998. Tesma's year end is consistent with the automotive OEMs' vehicle model year which facilitates a more meaningful and easily understood analysis of the Company's operating results. As part of this discussion, we assess the impact of uncertainties, opportunities and risks on the Company. This discussion should be read in conjunction with the accompanying consolidated financial statements and notes found on pages 28 to 46 of this Annual Report.

industry trends

The Company operates within the automotive industry designing and manufacturing powertrain (engine, transmission and fuel) parts and assemblies for the automotive OEMs or their Tier 1 powertrain component manufacturers. The four key trends identified by Tesma in 1995 as being the catalysts which would provide the means to grow our business and build upon our position as a leading Tier 1 automotive supplier continue to apply and provide opportunities for future growth. These trends are outsourcing, consolidation, globalization and modularization.

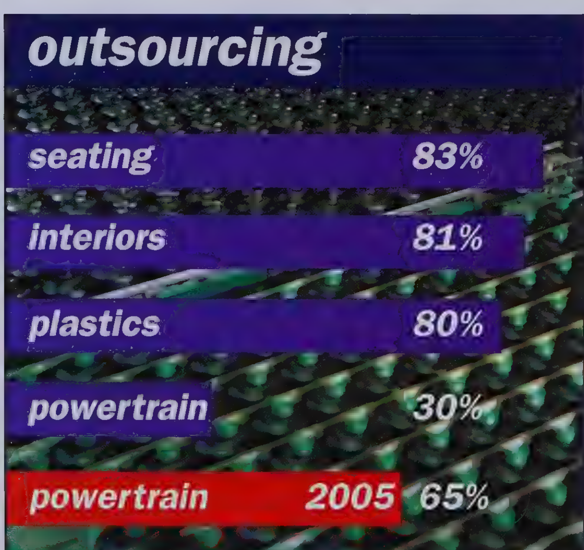


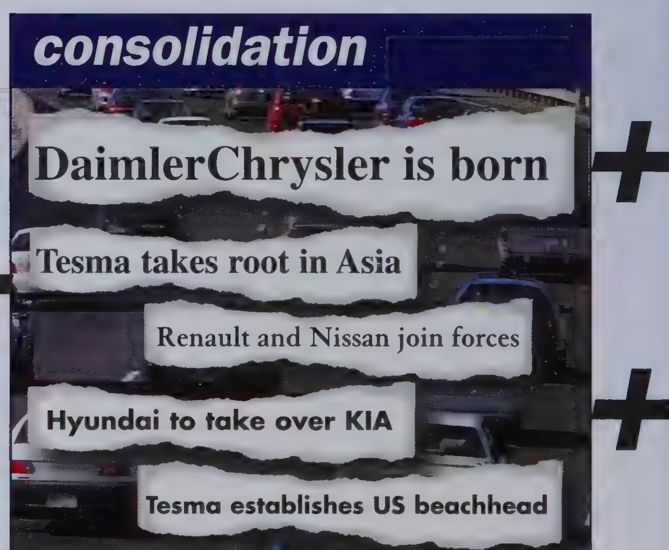
In 1999, OEMs continued to outsource the design, development and supply of automotive components and systems to Tier 1 suppliers such as Tesma as they refocus on their core competencies of vehicle design, assembly and marketing. The Company estimates that approximately 54% of all component production is outsourced today versus 40% in 1995; this outsourcing should grow to over 80% by 2008. As the OEMs respond to cost pressure and the need to reduce time to market for new vehicles, growth in the outsourcing of powertrain systems and components should be even more dramatic. It is estimated that only 30% of powertrain component production is outsourced today as the OEMs have only recently started to relinquish engineering and design control in this area.

The trend to outsourcing requires suppliers to take on non-traditional "full-service" capabilities (including system design, engineering and testing on a global basis). The added cost of these capabilities and the OEMs' preference to deal with fewer suppliers has fuelled the second key trend in our industry, consolidation. To remain competitive, the OEMs and component suppliers must consolidate, grow by acquisition and refocus efforts and resources on key products and core competencies.

The trend to globalization continued in 1999 with several major changes in the global automotive markets. Daimler Benz and Chrysler Corporation merged in November 1998 to create the world's 6th largest automotive OEM, thus expanding the combined company's worldwide presence and establishing it as a significant global OEM. Also in 1999, the Ford Motor Company expanded its global reach by acquiring the automotive operations of Volvo. As each of these and the other major OEMs expand their vehicle assembly operations into new geographic regions and design global vehicle and powertrain platforms, they prefer to deal with Tier 1 suppliers with global manufacturing and design and engineering capabilities. As a result, suppliers must have the ability to provide "full-service" capabilities in each of the OEMs' geographic markets in order to grow and maintain their status as a preferred Tier 1 supplier.

tesma's growth drivers





The final key trend involves the modularization of traditional components into assemblies, modules or systems with the goal of reducing costs and improving quality. Modularization is a key driver to the OEMs' goal of remaining competitive through cost reductions and reduced time to market for new vehicles. Fewer components reduce car assembly time and the involvement of suppliers at an earlier stage of design and engineering reduces the time and resources the OEM must dedicate to this process.

strategy

Tesma's strategic plan was developed in response to these four key trends and is regularly reviewed, refined and adapted to build on our position as a leading Tier 1 supplier in each of our powertrain product lines. The ultimate goal of Tesma's strategy is to ensure a preferred "full-service" supplier status for Tesma with each of the major global OEMs, thereby ensuring our continued growth and increased shareholder value. The key elements of our strategy which capitalize on the identified trends are: focusing on value added, highly engineered and proprietary products; emphasizing technical innovation through advanced research and development; maintaining and capitalizing on strong customer relationships and building new ones; pursuing international growth opportunities through strategic acquisitions, joint ventures and licensing agreements; and improving efficiencies within our own facilities.

In 1999, the Company made its most significant progress since going public in 1995. This was clearly evident in the record results for 1999 and the significant milestones achieved during the year. Tesma completed several major initiatives and transactions which strengthened the Company, broadened our scope of product offerings and addressed key elements in our strategy.

Throughout 1999, Tesma launched a significant number of value added products which were awarded in prior years and we continued to win contracts for additional value added, highly engineered products and systems. Our organic growth involved the launch of over $100 million of annualized water pump sales from our new facility in Mississauga, Ontario, $40 million in flexplates from our new facility in Aurora, Ontario, $20 million in value added aluminum die cast oil pans, rocker covers and valve covers and $30 million in transmission servo piston assemblies which were both awarded and launched during 1999. The Company was also awarded new collapsible driveshaft, tensioner and front cover module business which required us to establish a new 103,000 square foot facility in Concord, Ontario.

Our organic growth was complemented by two significant acquisitions which add both geographic and product diversity. Effective August 1, 1998, Tesma acquired Triam Automotive Corporation ("Sterling Heights") from Magna International Inc. ("Magna") for cash consideration of $32.2 million and the assumption of $3.7 million of indebtedness. Sterling Heights is a Michigan based supplier of powertrain and other components to the North American automotive industry, with annual sales in excess of $40 million. This U.S. acquisition, Tesma's second in ten months, expands our product offerings to include torque converter damper assemblies, die formed oil pan assemblies and transmission shells. It also strengthens our position as a "full-service" supplier in the North American automotive powertrain market. Effective January 1, 1999, Tesma continued its global expansion with the acquisition of South Korean based Hanwha Automotive Components Corporation ("HACC") from Ford Motor Company and Hanwha Corporation for $11.6 million and the assumption of approximately $33.3 million of indebtedness. HACC, with 2 manufacturing facilities located near Seoul and 170 employees, supplies oil and water pumps to customers in the United States, Asia, and Europe including Ford, Mazda, Isuzu and Ssangyong. This acquisition met all five key elements of our strategic plan. It establishes Tesma's first manufacturing and engineering presence in the third largest automotive market in the world, Asia; it provides Tesma with additional modular product offerings; it gives Tesma access to new customers, which creates opportunities for cross-selling Tesma's other products; it provides Tesma with 170 individuals experienced in the design, engineering and manufacturing of pumps which will provide significant synergies when teamed with our existing North American pump businesses.

To improve efficiencies within our own facilities we completed the amalgamation of our Splitcraft and Innotherm facilities into a new state-of-the-art facility in Concord, Ontario. This move substantially completes our two year plan to reduce the number of pulley plants from five to three, thereby significantly reducing overhead costs and overlapping development work in this product area.

In 1998, Tesma completed the $7.7 million acquisition of Hughes Manufacturing, Inc. ("Hughes"), a Michigan based supplier of formed vent and filler tubes for the North American automotive industry. This acquisition provided Tesma with its first manufacturing facility in the United States and broadened our offerings of fuel related products. The Company's 1999 results reflect a full year of Hughes' activities.

mda

facilities

Tesma operates 23 manufacturing facilities and 2 research centres and has sales offices in all 4 major automotive markets: North America, Europe, Asia and South America. From these facilities Tesma's 3,700 employees supply components, assemblies, modules, systems, tooling and engineering and design services to over one hundred OEMs and Tier 1 suppliers on six different continents.

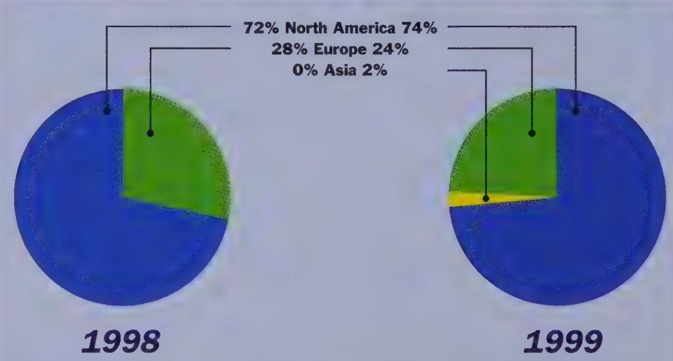
Following our corporate culture of functional and operational decentralization, each of these facilities operates as an autonomous operating unit. These operating units are then grouped geographically into operating groups which are overseen by the Corporate management team or a Group management team designated by Corporate management. Two research centres provide leadership, coordination and engineering support on development projects which require cooperation between operating units with similar product offerings and production processes.

sales

	1999	1998	Change
Total sales:			
North America	$ 665.6	$ 466.5	+ 43%
Europe	216.4	183.5	+ 18%
Asia and South America	17.5	–	–
Intersegment	(5.8)	(4.2)	–
Total sales	$ 893.7	$ 645.9	+ 38%

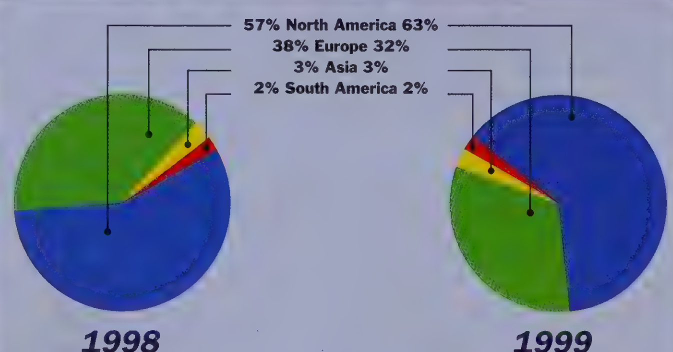
Tesma's consolidated sales increased 38% to a record $893.7 million in 1999, compared to $645.9 million in 1998. Production sales increased even more dramatically, by 42%, to $848.5 million from $597.4 million. Sales for our North American operations increased by 43% to $665.6 million versus $466.5 million in 1998 aided by the strong 9.4% rise in North American vehicle production to 15.6 million units in 1999. However, the majority of Tesma's growth in North America resulted from the 1999 acquisition of Sterling Heights, the 1998 acquisition of Hughes, increased exports to Europe and Asia, increased penetration of existing products and new product launches, including $52 million of water pump sales and a stronger U.S. dollar offset by a decline in exports to South America and givebacks to various OEM customers. A small portion of the North American vehicle production growth in 1999 can be attributed to the seven week GM strike which depressed 1998 volumes.

sales mix by segment



Presence in all 3 Major Automotive Markets

geographic destination of sales



A Global Company

Sales for the European automotive operations increased by 18% to $216.4 million versus $183.5 million a year ago. Increased penetration within Europe and a much stronger German deutschmark and other European legacy currencies relative to the Canadian dollar contributed most of the increase. The establishment of an aftermarket company to serve growing European demand in this sector of the market contributed the balance. The overall market in Europe enjoyed another year of continued growth as vehicle volumes hit 16.1 million units in 1999 versus 15.4 million a year ago, a 5% increase. Performance by country varies significantly; in the countries in which Tesma operates production increased by approximately 4% on the average.

The aforementioned acquisition of HACC provided Tesma with its first two manufacturing facilities in Asia. The results for these divisions have been included in the consolidated results since January 1, 1999 and added $17.5 million to Tesma's sales in 1999.

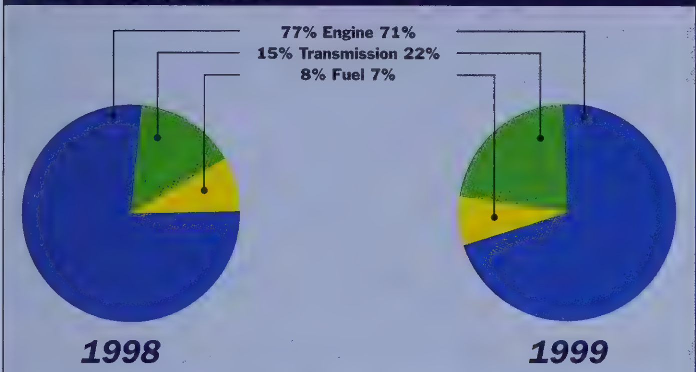
Tooling sales, an indicator of new business activity, declined slightly from 1998's record level of $48.5 million to $45.2 million in 1999. This continued high level of tooling sales reflects Tesma's ongoing involvement in new customer programs and the broadening of our product offerings. The drop in 1999 occurred because several of our significant program launches had insignificant tooling associated with them.

In 1999, the net impact of fluctuations in foreign currencies in which Tesma transacts a significant portion of its business was an increase in sales of approximately 2%, primarily as a result of the increase in the value of the German deutschmark and other European legacy currencies relative to the Canadian dollar. The increase occurs primarily on the translation of the results of self-sustaining foreign subsidiaries at higher average exchange rates in 1999 versus 1998 such that all items on the statement of income are affected, but none to the same magnitude as sales. In 1998, the net effect was a decrease of approximately 1%. Based on the relative strengths of the Eurodollar and other European legacy currencies and the U.S. dollar versus the Canadian dollar thus far in 2000 it is expected that the effect will reverse in 2000, but to a lesser magnitude than in 1999.

As we continued our global expansion in 1999 total sales in all markets, except South America, increased reflecting our product diversity and platform independence. Sales to North American customers increased significantly to $567.9 million or 53% versus $370.1 million in 1998 and now represent 63% of sales versus 57% in 1998. As a result, Tesma's North American content per

vehicle increased to over $33 from $22 a year ago. Sales to European based customers grew to $287.4 million versus $243.3 million in 1998, but as a result of the significant growth in North America now represent 32% of sales versus 38% a year ago. Our strategy of expanding our presence in other markets, including the acquisition of HACC, continued to provide new global business opportunities in 1999. As a result, sales to Asian customers increased to $24.5 million in 1999 versus $18.1 million in 1998 and continue to represent approximately 3% of Tesma's total sales. The market in South America continued to face a difficult economic climate in 1999 and sales into this region declined by 3% to $13.9 million and accounted for approximately 2% of Tesma's sales in both 1999 and 1998. Sales to our four largest worldwide customers; General Motors Corporation ("GM"), Ford Motor Company, DaimlerChrysler and the Volkswagen group increased to 78% of total sales versus 68% in 1998 primarily as a result of the merger of Daimler Benz and Chrysler Corporation and increased penetration with GM. Prior to 1999, Daimler Benz was our 5th largest customer. No single powertrain program accounted for more than 5% of Tesma's consolidated sales in 1999 or 1998.

sales by product



Transmission Sales Doubled

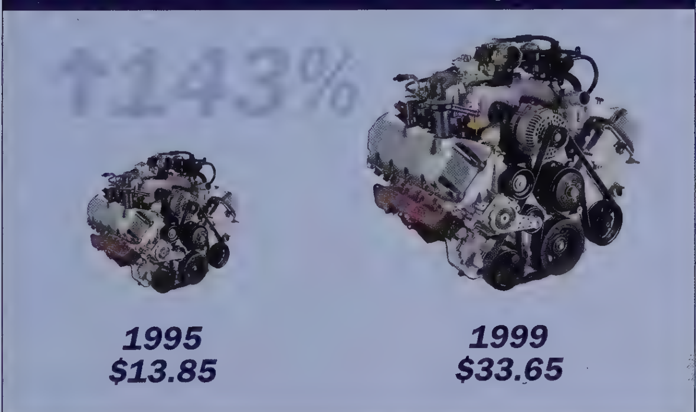
On a product basis, Engine Systems, which includes the operations of the Litens Automotive Group ("Litens") increased to $635 million versus $503 million a year ago and accounted for 71% of consolidated sales versus 77% a year ago. The increased sales were a result of the launch of the water pump business in North America, the acquisition of HACC and increased penetration in North America, Europe and Asia. Transmission Systems sales increased to $195 million in 1999 versus $98 million a year ago primarily as a result of the acquisitions of Sterling Heights and HACC and a new program launch in our Cape Breton facility. This group represents 22% of consolidated sales up from 15% a year ago. The smallest of the product groupings, Fuel Systems, accounted for $68 million or 7% of sales versus $54 million a year ago. The major factors contributing to the increase were the mid 1998 acquisition of Hughes and increased penetration in both North America and Europe.

gross margin

	1999	1998	Change
Sales	$ 893.7	$ 645.9	+ 38%
Cost of goods sold	694.6	502.2	+ 38%
Gross margin	$ 199.1	$ 143.7	+ 38%
Gross margin percentage	22.3%	22.3%	

Gross margin as a percentage of sales remained constant in 1999 at 22.3%. The continuing positive improvements of higher capacity utilization due to increased sales and improved margins in many of our European and North American facilities (especially those which were established in 1998), the completion of the amalgamation of our five pulley plants into three, a higher US dollar and a decrease in low margin tooling sales, were offset by the lower gross margins of the new value added products, low margins on the sales of our European die casting facility, the strength of the German deutschmark and other European legacy currencies which increased the absolute size of lower margin European sales, higher provisions under the employee profit sharing plan as a result of the record results in 1999, and continuing price reductions required under an increasing number of long-term contracts with OEMs.

tesma's north american content per vehicle



The competitive environment within the automotive industry has caused OEMs to increase pressure on suppliers, including Tesma, for price concessions and the absorption of more costs related to product design and engineering, tooling, capital and other items previously paid for directly by OEM customers. In addition, Tesma may not be able to fully pass on price increases from its own suppliers to OEM customers. Although there can be no certainty regarding Tesma's ability to successfully respond to future competitive pressures, Tesma has in the past been largely successful in responding to these pressures through a number of means, including improved operating efficiencies, design improvements, supplier management and other cost reductions and believes that its current cost reduction programs will enable it to remain competitive.

Tesma's business strategy and its Corporate Constitution place a strong emphasis on internal research and development activities in order to develop or improve upon existing innovative, highly engineered products and processing technologies. The Company formalized this structure in 1999 by establishing dedicated research centres in Toronto, Ontario and Weiz, Austria. These two centres employ 15 engineers and support staff dedicated to advanced powertrain research. During 1999, the Company spent a record $14.8 million on research and development. Net research and development expenses were almost unchanged at $13.8 million in 1999 as the Company was successful in obtaining increased levels of customer and government funding including tax credits. The Corporate Constitution requires the Company to invest no less than 7% of its profit before tax in research and development recognizing these types of investments promote the long-term viability of the Company. In 1999 and 1998, the amounts expended were in excess of 16% of profit before tax.

mda

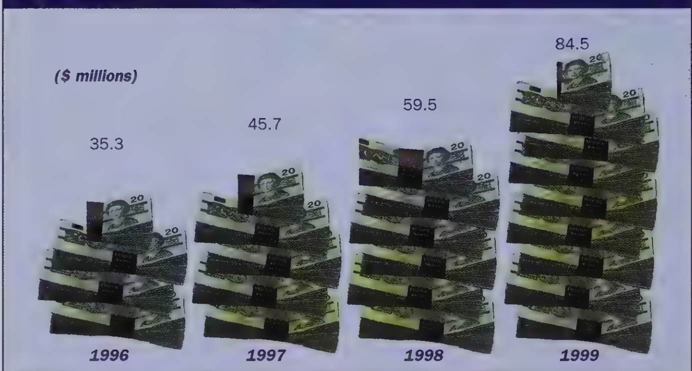
operating income

Operating income increased by 42% to $84.5 million in 1999 versus $59.5 million in 1998. The $55.4 million increase in gross margin was reduced by the increase in S,G & A costs, depreciation and amortization charges, financing costs and affiliation fees. Tesma's North American operations contributed $72.8 million or 86% of consolidated operating income versus $49.9 million or 84% in 1998. The Company's European operations contributed $11.7 million in 1999 versus $9.6 million a year ago and the Asian and South American operations were breakeven.

	1999	1998	Change
Gross margin	$ 199.1	$ 143.7	+ 39%
less:			
Depreciation and amortization	35.4	23.7	+ 49%
Selling, general and administrative	65.7	51.3	+ 28%
Interest, net	2.3	(0.4)	–
Amortization of discount on Convertible Series Preferred Shares	–	1.2	– 100%
Affiliation fees and other charges	11.2	8.4	+ 33%
Operating income	$ 84.5	$ 59.5	+ 42%

Depreciation and amortization expense increased to $35.4 million in 1999 versus $23.7 million in 1998 (representing 4.0% of sales in 1999 compared to 3.7% in 1998) or an increase of 49%. The rate of growth in these costs continues to outpace sales as significant amounts of capital continue to be acquired in preparation for the new program launches. The increase in depreciation charges for 1999 are a result of this continuing investment in capital assets, primarily new facilities and equipment, and the acquisition of subsidiaries completed over the past two years. In 1999 capital expenditures totalled $68.5 million, net of disposals, representing an increase of 9% over the prior year and bringing the total for the last two years to $131.5 million. Additionally, the two acquisitions completed in 1999 added assets with a fair value of $57.6 million versus only $2.6 million in 1998. Amortization expense increased to $1.6 million versus $0.7 million in 1998 as a result of the amortization of goodwill on the acquisition of Sterling Heights and a full year of amortization of the goodwill recorded on the acquisition of Hughes.

operating income



Selling, general and administrative expenses increased to $65.7 million in 1999 versus $51.3 million in 1998, but declined significantly to 7.35% of consolidated sales from 7.94% a year ago. The absolute increase was attributable to the inclusion of the selling, general and administrative expenses of Hughes for a full year, the 1999 acquisitions of Sterling Heights and HACC, the ramp up of the flexplate, water pump and oil pump facilities, the new Litens aftermarket business in Europe and facility in Toronto, Canada, increased costs associated with the expansion of our international sales and engineering offices to serve our growing list of international customers, the establishment of a group management team in Europe, the translation of expenses at our European facilities at higher rates of exchange, increased investment in employee training and development, increased legal fees associated with our emphasis on patent renewals and filings to protect our intellectual property and increased capital taxes.

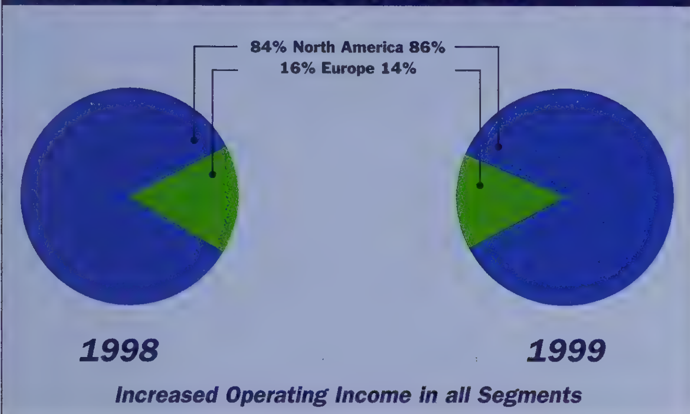
As a result of the cash paid for the two acquisitions completed in the first half of 1999 and the high level of capital spending, the Company had net indebtedness for most of 1999 versus net cash a year ago. Interest expense of $2.6 million versus $0.9 million a year ago was incurred primarily on the 6.22% Senior Unsecured Notes issued May 25, 1999, bank-term debt assumed on the purchase of HACC, existing term debt in Europe and capital lease obligations. Overall, Tesma reported interest expense, net of interest income earned on cash balances, of $2.3 million versus income of $0.4 million in 1998.

As a result of the June 1998 conversion of all remaining Convertible Series Preferred Shares, the Company no longer has any amortization related to the discount on these shares. In 1998, the Company recorded $1.2 million of amortization.

Effective August 1, 1997, a revised affiliation agreement between Tesma and Magna took effect. Under the terms of this five year agreement, the affiliation fee is calculated solely as 1% of Tesma's reported consolidated net sales. Under a separate agreement Tesma also pays Magna a fee based on a specified percentage of pretax profits before profit sharing representing a contribution to social and charitable programs coordinated by Magna on behalf of Magna and its affiliated companies. This fee represents a significant portion of the 2% allocation for Social Responsibility as required under Tesma's Corporate Constitution. Other charges are negotiated annually and are based on the level of specific benefits and services provided by Magna to the Company. The affiliation fees and other charges increased by 33% to $11.2 million in 1999 versus $8.4 million in 1998 largely as a result of the increase in Tesma's sales. The fees for 1999 consisted of an affiliation fee of $8.9 million versus $6.5 million in 1998, a social fee of $1.6 million versus $1.0 million in 1998 and other charges of $0.7 million versus $0.9 million in 1998. The other charges declined, as some of the services which were previously provided by Magna under this agreement were assumed by Tesma employees during 1999.

Completed placement of $60 million 6.22% Senior Unsecured Notes

operating income mix by segment



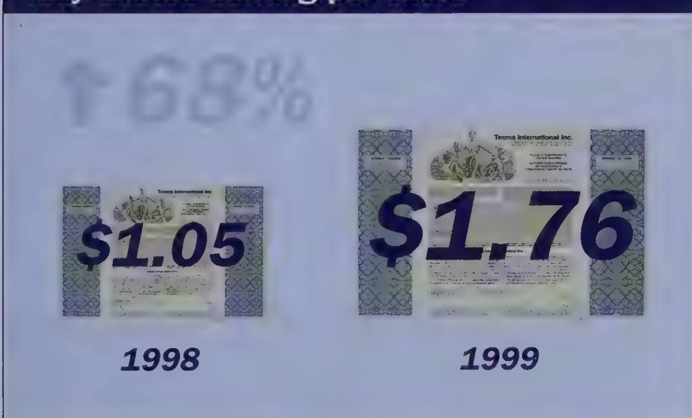
On a segmented basis operating income from the North American operations increased 46% to $72.8 million in 1999 versus $49.9 million a year ago. These operations generated approximately 86% of Tesma's operating income. European operations contributed operating income of $11.7 million in 1999, up 22% versus $9.6 million a year ago, representing 14% of Tesma's consolidated operating income. Tesma's other global operations operated at breakeven in 1999 versus an operating loss of $0.1 million in 1998.

Income before income taxes increased to $84.5 million in 1999, up 68% from $50.4 million in 1998. The results for 1998 included a $9.1 million provision for all present and future costs related to a patent litigation settlement with a competitor. The settlement agreement allows the Company to continue manufacturing the subject product for the duration of a pre-existing long-term supply agreement (ending July 31, 2001).

net income

	1999	1998	Change
Income before income taxes	$ 84.5	$ 50.4	+ 68%
less:			
Income taxes	32.2	20.7	+ 56%
Net income	52.3	29.7	+ 76%
Dividends on Convertible Series Preferred Shares [net of return of capital] [1]	–	(2.9)	– 100%
Net income attributable to Class A Subordinate Voting Shares and Class B Shares	$ 52.3	$ 26.8	+ 95%

fully diluted earning per share



Tesma's effective income tax rate decreased to 38.1% in 1999 versus 41.1% a year ago. The main reasons for the drop in the effective tax rate were the decrease in the amortization of the discount on the Convertible Series Preferred Shares which is not deductible for tax purposes, higher Canadian and U.S. income as a result of improved results and the absence of the non-recurring item, a reduction in the German corporate income tax rate and the reduction of losses at subsidiaries where the losses are not benefited, offset by the increased amortization of goodwill as a result of the Sterling Heights and Hughes acquisitions. The amortization of goodwill, German income and unbenefited losses are the main reasons Tesma's tax rate still exceeds the expected Canadian income tax rate of 35.6%. As a result of the higher income before income taxes and the drop in the effective income tax rate, Tesma's net income increased by 76% to a record $52.3 million in 1999 compared to $29.7 million in 1998.

The deduction from net income of dividends declared on Convertible Series Preferred Shares (net of a return of capital) of $2.9 million in 1998 reduced net income attributable to Class A Subordinate Voting Shares and Class B Shares to $26.8 million in 1998. No Convertible Series Preferred Shares dividends were paid in 1999, as these shares were all converted to Class A Subordinate Voting Shares in June of 1998. Accordingly, net income attributable to Class A Subordinate Voting Shares and Class B Shares increased by 95% to $52.3 million in 1999.

earnings per share

	1999	1998	Change
Earnings per share			
Basic	$ 1.83	$ 1.14	+ 61%
Fully diluted	$ 1.76	$ 1.05	+ 68%
Fully diluted excluding litigation settlement	$ 1.76	$ 1.25	+ 41%
Average number of shares outstanding			
Basic	28.5	23.4	+ 22%
Fully diluted	30.1	30.0	-

On a fully diluted basis, earnings per Class A Subordinate Voting Share or Class B Share increased 68% to $1.76 from $1.05 as a result of the increase in net income attributable to Class A Subordinate Voting Shares and Class B Shares. Excluding the litigation settlement, fully diluted earnings per share of $1.76 would have been 41% higher than the $1.25 in 1998.

Basic earnings per Class A Subordinate Voting Share or Class B Share increased 61% to $1.83 from $1.14 in 1998, again as a result of the increase in net income attributable to these shares offset by the 22% increase in the weighted average number of basic shares outstanding. The basic share increase was much larger than the fully diluted share increase due to the fact that all of the shares issued in 1998 and 1999 were done so on the exercise or conversion of securities already included in the fully diluted share number.

mda

financial condition, liquidity and capital resources

Cash balances at July 31, 1999, net of bank indebtedness, were $48.0 million versus $38.0 million a year earlier. The increase in the cash balance by $10.0 million was a result of the cash generated by operating activities, the proceeds received from long-term debt financings, primarily the $60 million of 6.22% Senior Unsecured Notes, and the proceeds received on the issuance of Class A Subordinate Voting Shares partially offset by the increase in investing activities, the repayment of debt and the payment of dividends.

	1999	1998
Cash provided from (used for):		
Operating Activities	$ 93.8	$ 52.0
Investing Activities	(112.1)	(73.9)
Financing Activities	53.7	(11.1)
Effect of Exchange Rates	(0.8)	1.2
Net increase (decrease) in cash	$ 34.6	$ (31.8)

operating activities

	1999	1998
Net income	$ 52.3	$ 29.7
Items not involving current cash flows	41.3	28.7
Net change in non-cash working capital	0.2	(6.4)
Cash provided from operating activities	$ 93.8	$ 52.0

During 1999, Tesma's cash provided from operating activities increased by $41.8 million to $93.8 million, as compared to $52.0 million in 1998. This increase is a result of the increase in net income and non-cash expenses, primarily depreciation and amortization and deferred taxes. A recovery of $0.2 million of the amount invested in non-cash working capital was achieved in 1999 despite the high level of organic sales growth for 1999. The increase in non-cash working capital as seen on the balance sheet is primarily a result of the acquisitions completed in 1999 and the strengthening of the German deutschmark and other European legacy currencies which increased the translated amount of Europe's working capital. During 1999, other factors including the Company's ability to increase inventory turns and effectively manage its days sales in accounts receivable helped to minimize the required level of working capital and, as a result, working capital turns increased to over 10 times.

investing activities

	1999	1998
Fixed asset additions	$ 67.5	$ 65.0
Other asset increases	5.1	5.6
Purchase of subsidiaries, net of cash	40.7	5.3
Proceeds from asset disposals	(1.2)	(2.0)
Cash used for investing activities	$ 112.1	$ 73.9

Investment spending totaled $112.1 million (net of proceeds from dispositions and cash acquired on the acquisition of subsidiaries) in 1999 compared to $73.9 million in 1998. Cash spent on additions to fixed assets increased by 4% to $67.5 million in 1999 versus $65.0 million last year. The Company also acquired $2.2 million of assets under capital lease obligations. Capital spending included $10.1 million for land and buildings with the balance invested in equipment for new business primarily at our North American and European aluminum die casting facilities, the flexplate facility and the water and oil pump facilities. New assets purchased for North American facilities accounted for 74% of capital spending versus 87% in 1998, 24% was for the Company's European facilities versus 13% a year ago and 2% was for other global facilities. Other asset spending of $5.1 million in 1999 consisted primarily of the $3.9 million of deferred preproduction costs at the Company's new water pump facility which commenced commercial production on February 1, 1999. A total of $6.7 million of pre-operating costs were deferred and are being amortized over the five year period that commenced on the date commercial production was reached.

acquisitions

name/purchase price	description	customers
Triam Automotive Corporation $32.2 million	A Michigan based supplier of powertrain and other components including torque convertor damper assemblies, die formed oil pan assemblies and transmission shells	Ford Motor Company, DaimlerChrysler and General Motors
Hanwha Automotive Components Corporation $7.8 million	A South Korean based manufacturer of oil and water pumps with two manufacturing facilities	Ford Motor Company, Mazda, Isuzu, Ssangyong, Daewoo and Samsung
Hughes Manufacturing, Inc. $5.2 million	A Michigan based manufacturer of formed vent and filler tubes for fueling applications	Ford Motor Company and Tier One Suppliers

During 1999, the Company spent $40.7 million, net of cash acquired, to purchase 100% of the shares of Sterling Heights and HACC. Both purchase and sale agreements contained provisions requiring additional payments if certain levels of financial performance are reached. The Sterling Heights acquisition, which was reviewed and approved by a special committee of the independent directors on the Board of Directors and supported by an independent fairness opinion, contains a provision requiring Tesma to pay additional amounts of up to $4 million contingent upon Sterling Heights attaining certain predetermined levels of EBITDA over the five year period commencing January 1, 1998. To date one additional payment of $0.8 million was paid, and no further amounts are payable as at July 31, 1999. The HACC acquisition contains a provision requiring Tesma to pay additional amounts in respect of the four year period commencing January 1, 1999 equal to 50% of the amount that adjusted earnings exceed a predetermined threshold. The total to be paid cannot exceed $3 million ($2 million U.S.). As at July 31, 1999 no amounts were yet owing nor had any amounts been paid or accrued. These acquisitions had a significant effect on Tesma's consolidated balance sheet, as they added $6.6 million in non-cash working capital, $73.2 million of fixed and other assets (including goodwill), bank indebtedness of $10.2 million, long-term debt of $27.1 million and deferred income taxes of $1.8 million. The 1998 acquisitions of Hughes and ATM had only a minor impact on the Company's consolidated balance sheet. Capital spending in 2000 is expected to be in the range of $90 million, primarily to support newly awarded production contracts, the expansion of certain manufacturing facilities, required maintenance improvements and a new head office to consolidate all corporate staff into one location. Management believes that cash balances on hand, existing unutilized credit facilities, and internally generated funds from operations will be sufficient to meet all planned cash requirements for 2000.

financing activities

	1999	1998
Issuance of Class A Shares	$ 0.9	$ 3.5
Issues of long-term debt	64.6	2.4
Repayment of long-term debt and indebtedness	(3.0)	(7.2)
Dividends	(8.8)	(9.8)
Cash provided from (used for) financing activities	$ 53.7	$ (11.1)

During 1999 the Company issued 85,500 Class A Subordinate Voting Shares for consideration of $0.9 million on the exercise of stock options versus 330,500 shares issued for $3.5 million in 1998.

On May 25, 1999 the Company completed the private placement of $60 million 6.22% Senior Unsecured Notes with two U.S. institutional investors. The proceeds of the offering were used to repay amounts drawn on the Company's main operating line which had been used to fund the acquisitions of Sterling Heights and HACC. An additional $4.6 million of long-term debt was incurred by the Company's subsidiaries in Europe and Asia.

The cash provided from operating activities and the proceeds from the issuance of shares and debt were used to reduce long-term debt and other indebtedness in the amount of $3.0 million and to pay dividends on the Class A Subordinate Voting Shares and Class B Shares in the amount of $8.8 million.

The Company's financial position remained strong during 1999 even though the asset base increased by 52% to $607.3 million. The Company diversified its sources of capital to include a manageable level of long-term debt (the 6.22% Senior Unsecured Notes) which was placed at rates much lower than Tesma's then prevailing cost of capital. At July 31, 1999 Tesma's ratio of debt to total capitalization was 0.13 to 1 which is within our stated target range of below 0.25 to 1.

In June 1998, the Company issued 5,349,204 fully paid Class A Subordinate Voting Shares, at a rate of $11.025 per share, upon the conversion of the remaining 589,750 Convertible Series Preferred Shares held by Magna and three other related holders. The $59.5 million carrying value on the Company's books as at the date of conversion has been reflected as the consideration received for these Class A Subordinate Voting Shares. Under the CICA's new cash flow statement recommendations this transaction is not reflected on the Company's consolidated statement of cash flows.

dividends

Dividends declared per Class A Subordinate Voting and Class B Share

Tesma's Corporate Constitution requires the payment of dividends of at least 20% of after-tax profits (after providing for any preference share dividends) on a rolling three year basis. To remain within these parameters the Board of Directors increased the quarterly dividend rate by 43% in June 1999 to $0.10 per share per quarter such that dividends of $9.7 million (34 cents per share) were declared on the Class A Subordinate Voting Shares and Class B Shares on account of fiscal 1999 versus $6.3 million (24 cents per share) in 1998.

shareholders' equity

During 1999, shareholders' equity increased by 16% or $42.0 million over July 31, 1998 and the book value per Class A Subordinate Voting Share or Class B share increased by 16% to $10.61 from $9.17. The issuance of shares and the net earnings for the year added $53.2 million to shareholders' equity. The decrease in the cumulative translation account represents the net decrease in value of the Company's investments in its foreign subsidiaries and a net realized gain on the repayment, by certain of the Company's subsidiaries, of a portion of the Company's long-term investment in these subsidiaries.

At July 31, 1999 the Company's market capitalization was $578 million, up 3% from $563 million at July 31, 1998.

foreign currency activities

Tesma negotiates sales contracts with North American OEMs in both Canadian and U.S. dollars. Materials and equipment are purchased in various currencies depending upon competitive factors, including relative currency values. Tesma's current Canadian production (approximately 67% of consolidated sales) uses Canadian labour and materials which are paid for primarily in Canadian dollars, but also in U.S. dollars. Tesma's Canadian production sales are invoiced and paid for substantially in Canadian dollars, U.S. dollars, Eurodollars and other European legacy currencies which were locked against the Eurodollar on January 1, 1999.

Tesma's European operations negotiate sales contracts with European OEMs for payment principally in Eurodollars and other European legacy currencies. Materials, equipment and labour are paid for principally in Eurodollars or other European legacy currencies.

Tesma's U.S. operations' contracts with North American OEMs are negotiated in U.S. dollars and our materials, equipment and labour are also paid for principally in U.S. dollars.

Tesma's Asian operations negotiate sales contracts with their OEM customers for payment in Korean Won, Japanese Yen, U.S. dollars and British Pounds. The Asian operations labour is paid in Korean Won and its materials and equipment are paid for in Korean Won, Japanese Yen, U.S. dollars and certain European legacy currencies.

A portion of Tesma's foreign currency cash flows, which result when manufacturing facilities commit to deliver products for which the selling price has been quoted in a foreign currency, are naturally hedged through the purchase of materials and capital equipment denominated in those foreign currencies. In an effort to manage the remaining exposure Tesma employs hedging programs primarily through the use of foreign exchange forward contracts that extend through the expected duration of the underlying production programs which can be several years.

The amount and timing of the forward contracts is dependent upon a number of factors including the anticipated production delivery schedules, anticipated customer payment dates, and anticipated product costs, which may be paid in foreign currencies. Tesma is exposed to credit risk from the potential default by any of its counterparties on its foreign exchange forward contracts, but mitigates this risk by dealing with only those counterparties considered to be high quality credits. Despite these measures, significant long-term movements in relative currency values could affect Tesma's results of operations. In particular, Tesma's results of operations may be adversely affected by a strengthening of the Canadian dollar against the U.S. dollar. In addition, Tesma does not hedge the business activities of self-sustaining foreign subsidiaries, and accordingly, Tesma's results of operations could be further affected by a significant change in the relative values of the Canadian dollar, U.S. dollar, Eurodollar, other European legacy currencies (particularly the German deutschmark and Austrian Schilling) or Korean Won.

mda

year 2000

The Year 2000 ("Y2K") issue arises because many computerized systems, software and microprocessors use two digits rather than four to identify a year. Date sensitive systems may recognize a date using "00" as the year 1900 (or some other date) rather than the year 2000. This Y2K phenomenon could cause a disruption of Tesma's operations including, among other things, a temporary inability to utilize manufacturing equipment, send invoices or engage in similar normal business activities.

Tesma, in conjunction with Magna, its controlling shareholder, has dedicated internal and external resources at the corporate and divisional levels to address this issue. The Company has undertaken extensive reviews including assessments of the Y2K readiness of its customers, suppliers and business partners. Through Magna's participation with the Automotive Industry Action Group ("AIAG"), Tesma was able to follow a systematic approach to the Y2K Issue that is consistent with its OEM customers across all of its divisions.

The Company has a Y2K Project Co-ordinator ("PCO") at the corporate level to ensure that each operating division within Tesma systematically addresses the Y2K Issue. Each of Tesma's divisions has cross-functional teams to address issues within their respective facilities. The Company presently estimates that over 25 people within Tesma are engaged in Y2K-related activities on either a full-time or part-time basis. The Company has made Y2K readiness a part of its regular operational reviews. The PCO makes periodic reports on the progress of its Y2K efforts to Executive management who presents this information to the Company's Board of Directors.

During the first half of 1999, the Company's Y2K efforts concentrated on manufacturing and processing equipment and its primary business computing systems. With respect to its manufacturing and processing equipment, the Company believes that the processes of remediation and component level testing are substantially complete. During the second half of 1999, system wide testing was carried out at most divisions and is expected to be completed by October 31, 1999.

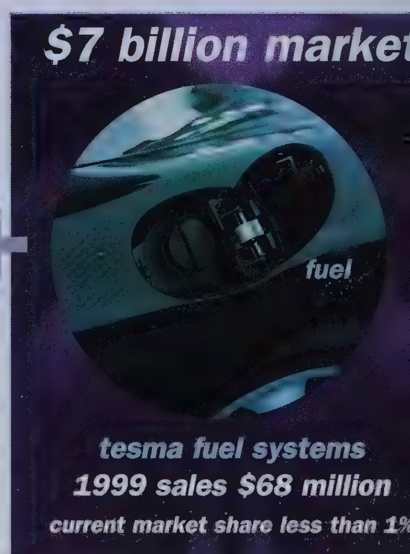
With respect to its primary administrative business computer systems, Tesma predominantly utilizes a variety of commercial off-the-shelf software and hardware throughout its facilities, which are common in the automotive and manufacturing industries. With these types of systems, remediation consists primarily of acquiring and installing upgrades or new releases from third party vendors that address the Y2K Issue. In certain cases, the necessary upgrades or new releases will not be available until fiscal 2000, however, the Company does not believe that these situations will materially impact the overall timetable for completion.

The Company estimates that, as of July 31, 1999, approximately 85% of its primary administrative business computer systems were remediated, put into operation, tested and validated. The Company currently believes that substantially all of the remaining remediation and testing activities will be completed by October 31, 1999.

Tesma, in conjunction with Magna, is continuing to communicate with suppliers to determine the extent to which it may be vulnerable to such parties' failure to remediate their own Y2K Issues. These activities commenced in 1999 and are expected to continue through the end of calendar 1999 to the extent required. The information gained from these activities will then be factored into Tesma's contingency plans.

In addition to its own personnel, external consultants have been and will continue to be employed to establish testing methodologies for the Company's manufacturing and processing equipment and administrative business computer systems, conduct internal assessments of Y2K activities and to assist with certain remediation efforts. Tesma has also retained the services of an independent company to perform limited reviews of the Y2K activities at a significant number (but not all) of its facilities in North America and Europe. These reviews were conducted substantially to a standard that was developed by the AIAG and which gained acceptance within the automotive industry in both North America and Europe. The reviews, including follow up activities at any division receiving less than a satisfactory rating, commenced in late calendar 1998 and were completed in July of 1999. The purpose of these reviews was to assist management in making adjustments to Tesma's Y2K efforts to ensure that the necessary remediation activities, testing and contingency plans are completed in a timely manner. In addition, Tesma expects during fiscal 2000 to undergo similar reviews at certain of its facilities by certain of its OEM customers. A number of such assessments have already been performed with positive results.

global market opportunity



The cost of Tesma's Y2K activities, which is not anticipated to have a material adverse effect on the financial condition of Tesma, is currently estimated to be $1.3 million, of which $0.7 million will be capitalized, and $0.6 million will be expensed. Of these amounts, $1.0 million was incurred through July 31, 1999.

In summary, the Company believes that it is making every reasonable effort to resolve the Y2K issue and to mitigate its potential effects on its business. Based on its current assessment, the Company believes that the Y2K issue will not have a material adverse impact on Tesma's results of operations or financial condition, but given the inherent complexities of the issue as a result of interrelationships amongst Tesma and its business partners there can be no assurance that Tesma can achieve Y2K compliance and thus guarantee the success of its remediation efforts.

euro currency

On January 1, 1999, eleven member countries of the European Union established fixed conversion rates between their legacy currencies and a new currency, the Eurodollar ("Euro"). The eleven member countries have adopted the Euro as their common legal currency and no longer control their own monetary policies, which are now directed by a new European Central Bank. The legacy currencies of each participating country will remain as legal tender in the participating countries as denominations of the Euro until December 31, 2001, after which time each participating country will issue new Euro-denominated currency for cash transactions.

Many of Tesma's automotive customers in Europe have converted their functional currency to the Euro and require that transactions be denominated in Euro. Where necessary, Tesma's relevant systems have been modified to accommodate the Euro in addition to accommodating certain historic legacy currencies. The remaining relevant systems will be modified over the period to December 31, 2001 as necessary in order to meet customer and other requirements. Based on the Company's current assessment, the Euro conversion and elimination of legacy currencies is not expected to have a material adverse impact on the results of operations or financial condition of Tesma.

outlook

Management, based on information available today, expects worldwide production of vehicles to approximate 50 million units in fiscal 2000, with moderate growth in the European market, a rebound in the Asian and South American markets and a modest decline in North America. North American production is expected to decline by approximately 3% while production in Europe is anticipated to increase in the range of 1%. During fiscal 2000, Tesma will launch significant new business at its aluminum die casting, water pump and oil pump facilities. The success of these launches and continued successful ramp up of 1999's product launches will have a direct impact on the near term success of the Company in 2000 and 2001. In addition, the inclusion of a full year's sales at newly acquired HACC will more than double their contribution to sales in 2000 and based on their historic operating performance and our successful restructuring of a significant portion their debt in 1999 should be accretive to Tesma's 2000 earnings. As a result of these and other new contracts, anticipated continued outsourcing by the OEMs in powertrain areas, requirements for global sourcing and increased development work which should lead to production contracts, management believes Tesma is well positioned to create long-term shareholder value and anticipates, without making assurances as to future results, continued growth in sales and earnings. Should vehicle production volumes fail to reach management's estimates, it is likely that many of the Company's weaker competitors may become attractive acquisition targets which would not only contribute to sales and earnings but also strengthen our position as a preferred "full-service" Tier 1 supplier.

The previous discussion (and other information in this Annual Report) contains statements which, to the extent that they are not recitations of historical fact, may constitute "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934. The words "estimate", "anticipate", "believe", "expect", and similar expressions are intended to identify forward-looking statements. Such forward-looking information involves important risks and uncertainties that could materially alter results in the future from those expressed or implied in any forward-looking statements made by, or on behalf of, Tesma. These risks and uncertainties include, but are not limited to, industry cyclicality, trade and labour disruptions, pricing concessions and cost absorptions, dependence on certain vehicles and major OEM customers, currency exposure, technological developments by Tesma's competitors, government and regulatory policies, changes in the competitive environment in which Tesma operates and the impact of the Y2K issue. Persons reading this Annual Report are cautioned that such statements are only predictions and that actual events or results may differ materially. In evaluating such forward-looking statements, readers should specifically consider the various factors which could cause actual events or results to differ materially from those indicated by such forward-looking statements.

+

= **100%**

increase in Tesma sales

management's responsibility for financial reporting

Tesma's management is responsible for the preparation and presentation of the consolidated financial statements and all other information in this Annual Report. The consolidated financial statements were prepared by management in accordance with generally accepted accounting principles, and, where appropriate, reflect estimates based upon the judgement of management. Where alternative accounting methods exist, management has selected those that it considered to be the most appropriate in the circumstances. Financial information presented elsewhere in this Annual Report has been prepared by management on a basis consistent with the consolidated financial statements. The consolidated financial statements have been reviewed by the Audit Committee and approved by the Board of Directors of Tesma.

Management is responsible for the development and maintenance of systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate, relevant and reliable, and that Tesma's assets are appropriately accounted for and adequately safeguarded.

Tesma's Audit Committee is appointed by the Board of Directors and is completely comprised of outside directors. The Committee meets periodically with management, as well as with the independent auditors, to satisfy itself that each is properly discharging its responsibilities, to review the consolidated financial statements and the independent Auditors' Report and to discuss significant financial reporting issues and auditing matters. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders.

The consolidated financial statements have been audited by Ernst & Young LLP, the independent auditors, in accordance with generally accepted auditing standards on behalf of the shareholders of Tesma. The Auditors' Report outlines the nature of their examination and their opinion on Tesma's consolidated financial statements. The independent auditors have full and unrestricted access to the Audit Committee.

Toronto, Canada
September 15, 1999

A. E. Dobranowski

Anthony E. Dobranowski Executive Vice President and Chief Financial Officer	James L. Moulds Vice President, Finance and Controller

auditor's report

To the Shareholders of **Tesma International Inc.**

We have audited the consolidated balance sheets of **Tesma International Inc.** as at July 31, 1999 and 1998 and the consolidated statements of income and retained earnings and cash flows for each of the years in the three-year period ended July 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 1999 and 1998 and the results of its operations and its cash flows for each of the years in the three-year period ended July 31, 1999 in accordance with accounting principles generally accepted in Canada.

Ernst & Young LLP

Toronto, Canada
September 10, 1999

Chartered Accountants

significant accounting policies

Basis of Presentation
The consolidated financial statements of Tesma International Inc. and its subsidiaries [the "Company"] have been prepared in Canadian dollars following accounting policies generally accepted in Canada. These policies are also in conformity, in all material respects, with accounting policies generally accepted in the United States, except as described in Note 20 to the consolidated financial statements.

Principles of Consolidation
The consolidated financial statements include the accounts of the Company. The Company accounts for its interests in jointly controlled entities using the proportionate consolidation method. All significant intercompany balances and transactions have been eliminated.

Use of Estimates
The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Management believes that the estimates utilized in preparing its consolidated financial statements are reasonable and prudent; however, actual results could differ from these estimates.

Cash
Cash includes cash on account, demand deposits and short-term investments with original maturities of three months or less. Cost approximates fair value.

Inventories
Inventories are valued at the lower of cost and net realizable value, with cost being determined substantially on a first-in, first-out basis. Cost includes the cost of materials plus direct labour applied to the product and the applicable share of manufacturing overhead.

Fixed Assets
Fixed assets are recorded at historical cost, including interest capitalized on construction in progress, less related investment tax credits and government grants.

Depreciation is provided on a straight-line basis over the estimated useful lives of fixed assets (including those under capital leases) at annual rates of 2 1/2% to 5% for buildings, 7% to 10% for general purpose equipment and 10% to 30% for special purpose equipment.

Other Assets
Goodwill, which represents the excess of the purchase price of the Company's interest in subsidiary companies over the fair value of the underlying net identifiable assets arising on acquisitions, is amortized over periods not exceeding 40 years. Goodwill is evaluated in each reporting period to determine if there were events or circumstances which would indicate a possible inability to recover the carrying amount. Such evaluation is based on various analyses including profitability projections and undiscounted future cash flows.

Costs incurred in establishing new facilities which require substantial time to reach commercial production capability are capitalized as deferred preproduction costs. Amortization is provided over periods up to five years from the date commercial production is achieved.

The Company accounts for its investments in which it has significant influence on the equity basis.

Revenue Recognition
Revenue from sales of manufactured products is recognized upon shipment to customers.

Government Financing
The Company makes periodic applications for financial assistance under available government assistance programs in the various jurisdictions in which the Company operates. Grants relating to capital expenditures are reflected as a reduction of the cost of the related assets. Grants and tax credits relating to current operating expenditures are recorded as a reduction of expense at the time the eligible expenses are incurred. The Company also receives loans which are recorded as liabilities in amounts equal to the cash received.

Research and Development
The Company carries out various applied research and development programs, certain of which are partially or fully funded by government or by customers of the Company. Funding received is accounted for using the cost reduction approach. Research costs are expensed as incurred. Development costs are expensed as incurred, but would not be expensed if they met the criteria under generally accepted accounting principles for deferral and amortization.

Foreign Exchange
Assets and liabilities of foreign subsidiaries and investees, all of which are self-sustaining, are translated using the exchange rate in effect at the end of the year and revenues and expenses are translated at the average rate during the year. Exchange gains or losses on translation of the Company's net equity investment in these foreign subsidiaries and investees are deferred as a separate component of shareholders' equity. The appropriate amounts of exchange gains or losses accumulated in the separate component of shareholders' equity are reflected in income when there is a reduction in the Company's investment in these subsidiaries and investees as a result of capital transactions.

Foreign exchange gains and losses on transactions occurring in a currency different than an operations' functional currency are reflected in income except for gains and losses on foreign exchange forward contracts used to hedge specific future commitments in foreign currencies. Gains or losses on these contracts are accounted for as a component of the related hedged transaction. Gains or losses on translation of foreign currency long-term monetary liabilities are deferred and amortized over the period to maturity.

Income Taxes
The Company follows the deferral method of tax allocation in accounting for income taxes. Under this method, timing differences between accounting and taxable income result in the recording of deferred income taxes.

Investment tax credits relating to fixed asset purchases and research and development expenditures are accounted for as a reduction of the cost of such assets and expenses, respectively.

Income taxes related to unremitted earnings of foreign subsidiaries are not provided for by the Company, as such earnings are considered to be indefinitely reinvested in foreign operations.

consolidated balance sheets

As at July 31st [Canadian dollars in thousands]	Note	1999	1998
ASSETS			
Current			
Cash		$ 78,582	$ 43,998
Accounts receivable	17	134,395	90,340
Inventories	4	76,043	57,991
Prepaid expenses and other		9,813	5,857
		298,833	198,186
Fixed assets	5	276,297	186,583
Other assets	6	32,173	14,562
		$ 607,303	$ 399,331
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness	8	$ 30,618	$ 6,002
Accounts payable	17	78,654	43,897
Accrued salaries and wages		25,108	16,054
Other accrued liabilities		41,854	32,015
Income taxes payable	7	5,673	310
Long-term debt due within one year	8	10,029	4,036
		191,936	102,314
Long-term debt	8	82,340	14,019
Deferred income taxes	7	29,538	21,525
SHAREHOLDERS' EQUITY			
Class A Subordinate Voting Shares	10	180,265	179,367
Class B Shares	10	2,583	2,583
Retained earnings		120,595	77,085
Currency translation adjustment	13	46	2,438
		303,489	261,473
		$ 607,303	$ 399,331

Commitments and contingencies *[notes 8 and 18]*

See accompanying notes

On behalf of the Board:

Director | Director

Tesma International Inc. Incorporated under the laws of Ontario

consolidated statements of income and retained earnings

Years ended July 31st [Canadian dollars in thousands, except per share figures]	Note	1999	1998	1997
Sales	17	$ 893,671	$ 645,894	$ 551,518
Cost of goods sold	17	694,567	502,164	428,151
Depreciation and amortization		35,391	23,676	19,058
Selling, general and administrative		65,720	51,299	43,609
Interest, net	8,17	2,295	(356)	335
Amortization of discount on Convertible Series Preferred Shares	9	–	1,232	3,052
Affiliation fees and other charges	17	11,213	8,415	11,596
Income before litigation settlement and income taxes		84,485	59,464	45,717
Litigation settlement	19	–	9,132	–
Income before income taxes		84,485	50,332	45,717
Income taxes	7	32,151	20,678	19,239
Net income		52,334	29,654	26,478
Dividends on Convertible Series Preferred Shares [net of return of capital]	9	–	(2,876)	(1,864)
Net income attributable to Class A Subordinate Voting Shares and Class B Shares		52,334	26,778	24,614
Retained earnings, beginning of year		77,085	55,721	34,953
Dividends		(8,824)	(5,414)	(3,846)
Retained earnings, end of year		$ 120,595	$ 77,085	$ 55,721
Earnings per Class A Subordinate Voting Share or Class B Share				
Basic	11	$ 1.83	$ 1.14	$ 1.31
Fully diluted	11	$ 1.76	$ 1.05	$ 1.13
Average number of Class A Subordinate Voting Shares and Class B Shares outstanding during the year *[in millions]*				
Basic	11	28.5	23.4	18.8
Fully diluted	11	30.1	30.0	26.6

See accompanying notes

Tesma International Inc.

consolidated statements of cash flows

Years ended July 31st [Canadian dollars in thousands]	Note	1999	1998	1997
Cash provided from (used for):				
OPERATING ACTIVITIES				
Net income		$ 52,334	$ 29,654	$ 26,478
Items not involving current cash flows	15	41,274	28,656	26,815
		93,608	58,310	53,293
Net change in non-cash working capital	15	170	(6,355)	(21,307)
		93,778	51,955	31,986
INVESTING ACTIVITIES				
Fixed asset additions		(67,455)	(64,960)	(48,052)
Increase in other assets		(5,126)	(5,636)	(1,802)
Purchase of subsidiaries	3	(44,608)	(7,947)	(2,584)
Proceeds from disposition of fixed and other assets		1,198	1,979	2,620
Cash acquired on acquisition of subsidiaries	3	3,863	2,665	35
		(112,128)	(73,899)	(49,783)
FINANCING ACTIVITIES				
Repayment of notes receivable from employees		–	242	543
Increase (decrease) in bank indebtedness		14,616	(1,467)	(104)
Issues of long-term debt	8	64,657	2,388	1,915
Repayments of long-term debt	8	(17,650)	(5,928)	(3,300)
Issuance of Class A Subordinate Voting Shares, net of related costs	10	898	3,470	68,889
Dividends on Class A Subordinate Voting Shares and Class B Shares		(8,824)	(5,414)	(3,846)
Dividends on Convertible Series Preferred Shares		–	(4,418)	(4,675)
		53,697	(11,127)	59,422
Effect of exchange rate changes on cash		(763)	1,259	(1,079)
Net increase (decrease) in cash during the year		34,584	(31,812)	40,546
Cash, beginning of year		43,998	75,810	35,264
Cash, end of year		$ 78,582	$ 43,998	$ 75,810

See accompanying notes

Tesma International Inc.

notes to consolidated financial statements

1. significant accounting policies

The significant accounting policies followed by the Company are set out under "Significant Accounting Policies" preceding these consolidated financial statements.

2. jointly controlled entities

The consolidated financial statements include the Company's proportionate share of the revenues, expenses, assets and liabilities of its jointly controlled entities as follows:

RESULTS OF OPERATIONS [Canadian dollars in thousands]	1999	1998	1997
Sales	$ 337,776	$ 300,397	$ 266,480
Cost of goods sold, other expenses and income taxes	309,594	277,226	246,539
Net income, after tax allocation	$ 28,182	$ 23,171	$ 19,941

FINANCIAL POSITION [Canadian dollars in thousands]	1999	1998
ASSETS		
Current assets	$ 79,451	$ 75,848
Long-term assets	25,573	24,374
Total assets	$ 105,024	$ 100,222
LIABILITIES AND EQUITY		
Current liabilities	$ 35,441	$ 37,571
Loans from partners	20,217	17,617
Equity *[i]*	49,366	45,034
Total liabilities and equity	$ 105,024	$ 100,222

STATEMENTS OF CASH FLOWS [Canadian dollars in thousands]	1999	1998	1997
CASH PROVIDED FROM (USED FOR):			
Operating activities	$ 34,295	$ 41,730	$ 19,098
Investing activities	(6,513)	(7,369)	(7,550)
Financing activities *[ii]*	(32,076)	(29,142)	(10,948)
	$ (4,294)	$ 5,219	$ 600

[i] Included in equity are undistributed earnings of $43.2 million [1998 - $36.3 million].

[ii] Included in cash flows from financing activities is a net cash distribution to the Company of $32.1 million [1998 - $27.5 million; 1997 - $12.6 million].

Pursuant to agreements amongst the partners of one of the jointly controlled entities, net income is to be distributed annually to the partners and each partner is required to loan back to the entity approximately 35% of such distribution, unless otherwise determined by the management committee of the entity. No amounts were required to be loaned back during the years ended July 31, 1999, 1998 or 1997. The management committee is responsible for overseeing and directing the operations and management of the entity and is comprised of four members of which the Company is entitled to appoint two. The repayment of this entity's partners' capital of $7.4 million [1998 - $7.4 million] and loans are subject to the approval of the management committee.

Shareholders' loans of $4.0 million [1998 – $1.4 million] in another jointly controlled entity are repayable August 1, 2000 or earlier at the option of the entity.

3. business acquisitions

[a] Fiscal 1999 Acquisitions

In October 1998, the Company completed the acquisition of 100% of the outstanding shares of Triam Automotive Corporation ["Sterling Heights"] from Magna International Inc. ["Magna"] for cash consideration of $32.2 million. Sterling Heights is a U.S. based manufacturer of powertrain and other components for the automotive industry.

Under the terms of the acquisition from Magna, the Company agreed to pay an additional amount not to exceed $4 million to Magna in respect of the five year period commencing February 1, 1998 if Sterling Heights achieves certain predetermined levels of earnings. In February 1999, a payment of $0.8 million was made as earnings exceeded the predetermined level for the first year.

In January 1999, the Company completed the acquisition of 100% of the outstanding shares of Hanwha Automotive Components Corporation ["HACC"], a South Korean based manufacturer of oil and water pump systems, for cash consideration of $11.6 million.

Under the terms of the acquisition, the Company has agreed to pay additional amounts in respect of the four year period commencing January 1, 1999 equal to 50% of the amount that adjusted earnings exceed a predetermined threshold. The total to be paid cannot exceed $3 million ($2 million U.S.). As at July 31, 1999 no amounts had been paid or accrued.

These acquisitions have been accounted for under the purchase method of accounting and the results of operations are included in the Company's consolidated financial statements since August 1, 1998 for Sterling Heights and January 1, 1999 for HACC. Details of the net effect of these transactions are as follows:

[Canadian dollars in thousands]	1999
Non-cash working capital	$ 6,642
Fixed assets	57,573
Other assets	242
Cash	3,863
Bank indebtedness	(10,210)
Long-term debt [including portion due within one year]	(27,121)
Deferred income taxes	(1,796)
Net identifiable assets acquired	29,193
Goodwill upon acquisitions	15,415
Net purchase price	$ 44,608

If these acquisitions had occurred on August 1, 1998, the unaudited proforma sales of the Company for fiscal 1999 would have been $906.5 million and net income would have increased by $0.5 million.

[b] Fiscal 1998 Acquisitions
In February 1998, the Company completed the acquisition of 100% of the outstanding shares of Hughes Manufacturing Inc., a U.S. based manufacturer of automotive vent and filler tubes for cash consideration of $7.7 million.

In January 1998, the Company completed the acquisition of the remaining outstanding shares and shareholder advances of ATM Aluminium Technique Moselle S.a.r.l. ["ATM"] for cash consideration of $0.3 million.

These acquisitions have been accounted for under the purchase method of accounting and the results of operations are included in the Company's consolidated financial statements since January 1, 1998 and January 31, 1998, respectively. Details of the net effect of these transactions are as follows:

[Canadian dollars in thousands]	1998
Non-cash working capital	$ 501
Fixed assets	2,592
Other assets	225
Cash	2,665
Long-term debt [including portion due within one year]	(1,475)
Net identifiable assets acquired	4,508
Goodwill upon acquisitions	3,439
Net purchase price	$ 7,947

If these acquisitions had occurred on August 1, 1997, the unaudited proforma sales of the Company for fiscal 1998 would have been $652.8 million and net income would have increased by $0.9 million.

[c] Fiscal 1997 Acquisition
In January 1997, the Company completed the acquisition of 100% of the outstanding shares and shareholder advances of Eralmetall GmbH ["Eralmetall"], a German aluminum die and gravity mould caster, which consisted of two manufacturing facilities in Germany and an equity interest in ATM. The total purchase price was $2.5 million. The acquisition was accounted for using the purchase method of accounting. The results of operations are included in the Company's consolidated financial statements from the date of acquisition and the net effect of the transaction is as follows:

[Canadian dollars in thousands]	1997
Non-cash working capital	$ (5,993)
Fixed assets	11,167
Investments and other assets	1,911
Cash	35
Bank indebtedness	(914)
Long-term debt [including portion due within one year]	(3,622)
Net identifiable assets acquired and total purchase price	$ 2,584

If the acquisition had occurred on August 1, 1996, the unaudited proforma sales of the Company for fiscal 1997 would have been $568.6 million and the net income would have been reduced by $2.0 million.

4. inventories

Inventories consist of:

[Canadian dollars in thousands]	1999	1998
Raw materials and supplies	$ 26,275	$ 16,401
Work-in-process	13,933	12,191
Tooling and other	15,143	8,968
Finished goods	20,692	20,431
	$ 76,043	$ 57,991

5. fixed assets

Fixed assets consist of:

[Canadian dollars in thousands]	1999	1998
Land	$ 19,491	$ 14,891
Buildings	62,156	43,519
Machinery and equipment *[i]*	300,106	215,896
Construction in progress	32,767	21,086
	414,520	295,392
Accumulated depreciation *[i], [ii]*	138,223	108,809
	$ 276,297	$ 186,583

[i] Machinery and equipment includes $18.8 million [1998 – nil] for assets under capital leases and accumulated depreciation includes $1.2 million [1998 – nil] for assets under capital leases.

[ii] Accumulated depreciation includes $9.7 million for buildings [1998 - $7.2 million] and $127.3 million for machinery and equipment [1998 - $101.6 million].

6. other assets

Other assets consist of:

[Canadian dollars in thousands]	1999	1998
Goodwill	$ 23,819	$ 8,474
Accumulated amortization	(3,319)	(1,725)
	20,500	6,749
Deferred preproduction costs [net of accumulated amortization of $669 [1998 – nil]]	6,018	2,781
Investments	638	1,230
Other	5,017	3,802
	$ 32,173	$ 14,562

7. income taxes

[a] Rate Reconciliation

The provision for income taxes differs from the expense that would be obtained by applying Canadian statutory rates as a result of the following:

	1999	1998	1997
Canadian statutory income tax rate	44.6%	44.6%	44.6%
Manufacturing and processing profits deduction	(9.0)	(9.0)	(9.0)
Expected income tax rate	35.6	35.6	35.6
Amortization of discount on Convertible Series Preferred Shares	–	0.9	2.4
Foreign rate differentials	0.8	3.2	2.2
Losses of subsidiaries not tax benefited	2.3	1.5	1.5
Other	(0.6)	(0.1)	0.4
Effective income tax rate	38.1%	41.1%	42.1%

[b] Provision

The details of the income tax provision are as follows:

[Canadian dollars in thousands]	1999	1998	1997
Current provision			
Canadian federal taxes	$ 11,487	$ 7,678	$ 7,690
Provincial taxes	6,949	4,579	4,635
Foreign taxes	9,399	7,044	4,624
	27,835	19,301	16,949
Deferred provision			
Canadian federal taxes	2,101	1,090	2,002
Provincial taxes	1,282	665	1,221
Foreign taxes	933	(378)	(933)
	4,316	1,377	2,290
	$ 32,151	$ 20,678	$ 19,239

[c] Deferred Provision
Deferred income taxes have been provided on timing differences which consist of the following:

[Canadian dollars in thousands]	1999	1998	1997
Tax deferred income	$ 1,330	$ (114)	$ 1,407
Tax depreciation in excess of book depreciation	774	332	753
Preproduction costs (net of amortization), capitalized for accounting, deducted for tax	1,049	991	–
Other	1,163	168	130
	$ 4,316	$ 1,377	$ 2,290

[d] Taxes Paid
Income taxes paid in cash were $18.3 million for 1999 [1998 - $16.7 million; 1997 - $21.9 million].

[e] Loss Carryforwards
At July 31, 1999, certain subsidiaries of the Company have tax loss carryforwards, in various jurisdictions, of approximately $29.2 million. Of these losses, $26.7 million have no expiry date and $2.5 million expire between 2003 and 2006. The tax benefits of $21.4 million of these losses have not been recognized in the consolidated financial statements.

8. debt

[a] Long-Term Debt
The Company's long-term debt consists of the following:

[Canadian dollars in thousands]	1999	1998
6.22% Senior Unsecured Notes *[Note 8[b]]*	$ 60,000	$ –
Bank term debt *[Note 8[c]]*	19,876	15,351
Obligations under capital leases *[Note 8[d]]*	9,863	–
Other debts	2,630	2,704
	92,369	18,055
Less amount due within one year	10,029	4,036
	$ 82,340	$ 14,019

[b] 6.22% Senior Unsecured Notes
On May 25, 1999, the Company completed a long-term financing of $60 million 6.22% Senior Unsecured Notes [the "Notes"] due May 25, 2006. These Notes require the Company to maintain certain covenants.

[c] Bank Term Debt
Bank term debt consists of amounts denominated in the following currencies:

[Canadian dollars in thousands]	Final Maturity	Weighted Average Interest Rate	1999	1998
Austrian Schillings *[i]*	2004	4.38%	$ 8,321	$ 10,122
Korean Won *[ii]*	2003	12.19%	6,607	–
German Deutschmarks *[iii]*	2009	6.63%	4,231	4,424
Other	2001	6.07%	717	805
			$ 19,876	$ 15,351

[i] Austrian Schillings
Term debt of $2.8 million [AS 24.2 million] [1998 - $4.1 million (AS 33.8 million)] is advanced under a total line of $2.8 million. Interest is payable at a rate of interest that floats between 4% and 6% and is currently payable at 5%. The loan is collateralized by certain land, building and machinery and equipment and requires the maintenance of certain financial ratios. The loan is repayable in equal semi-annual installments and matures January 1, 2002.

Other long-term debt of $4.7 million [AS 40 million] [1998 - $6.0 million (AS 50 million)] is advanced under a total line of $4.7 million. Interest is currently payable at VIBOR [Vienna Interbank Overnight Rate] plus 0.75%. The loan is repayable in equal semi-annual installments and matures December 31, 2002.

Other long-term debt of $0.8 million [AS 6.9 million] was advanced under a total line of $0.8 million during 1999. Interest is currently payable at a fixed rate of 4.375%. The loan is repayable in equal semi-annual installments and matures December 31, 2003.

[ii] Korean Won
Bank term debt of $6.6 million [5.2 billion Won] is advanced under total lines of $6.6 million. Interest is currently payable at fixed and floating rates ranging from 10.94% to 13.5%. The principal amounts are repayable in regular quarterly and semi-annual repayments and mature at various dates through October 25, 2002. This debt is collaterizaled by certain land and specific equipment of HACC.

[iii] German Deutschmarks
Bank term debt of $4.2 million [DM 5.1 million] [1998 - $4.4 million (DM 5.3 million)] is advanced under total lines of $4.2 million. Interest is currently payable at fixed rates ranging from 3.83% to 7.32%. The principal amounts are repayable at various intervals over the next ten years. This debt is collateralized by land, building and specific assets of certain subsidiaries.

[d] Capital Leases
Obligations under capital leases consist of amounts denominated in the following currencies:

[Canadian dollars in thousands]	Final Maturity	Weighted Average Interest Rate	1999	1998
U.S. dollars *[i]*	2003-2005	8.83%	$ 7,306	$ –
German Deutschmarks	2006	5.75%	1,863	–
Korean Won *[ii]*	2001-2004	12.82%	694	–
			$ 9,863	$ –

[i] Interest is payable at floating rates currently ranging from 6.50% to 9.52%.

[ii] Interest is payable at fixed rates ranging from 11.94% to 13.24%.

In 1999, the Company completed capital lease transactions, other than those acquired through business acquisitions, totalling $2.2 million.

[e] Principal Repayments
Future annual principal repayments on long-term debt are estimated to be as follows for the years ending July 31:

[Canadian dollars in thousands]	
2000	$ 10,029
2001	7,803
2002	6,967
2003	3,553
2004	1,161
Thereafter	62,856
	$ 92,369

[f] Bank Indebtedness

[i] The Company has an unsecured $50 million operating line of credit bearing interest at variable rates per annum not exceeding the bank's prime rate of interest. At July 31, 1999, the Company had outstanding letters of credit in the amount of $0.8 million drawn under this line of credit and $46.5 million of this line was unused and available. The Company also has foreign exchange facilities in the amount of $30 million [see [Note 12[a]].

[ii] Litens Automotive Partnership ["LAP"] has an unsecured $15 million operating line of credit bearing interest at variable rates per annum not exceeding the bank's prime rate of interest. The related credit agreement provides for the maintenance of certain financial ratios. As at July 31, 1999, LAP had outstanding letters of credit in the amount of $0.1 million drawn under this line of credit and $14.8 million was unused and available. LAP also has foreign exchange facilities in the amount of U.S.$100 million [see Note 12[a]]. One of LAP's subsidiaries has unsecured demand lines of credit totalling $5.8 million [DM 7 million] all of which were unused and available at July 31, 1999. Interest is payable at both the FIBOR [Frankfurt Interbank Overnight Average Rate] plus 1.5% and at a fixed rate of 6.25%.

[iii] The Company has various operating lines of credit for its European subsidiaries denominated in both German deutschmarks and Austrian schillings of $8.2 million. As at July 31, 1999, $1.4 million of these lines were unused and available. Interest is payable at VIBOR plus 1/2% [LIBOR plus 1/2% for drawings in foreign currencies] for loans denominated in Austrian schillings. Interest on German deutschmark denominated loans is payable at both prime rate and fixed rates between 4.76% and 8.25%. Accounts receivable and certain assets of subsidiaries have been pledged as collateral under these lines of credit.

[iv] HACC has various operating lines of credit denominated in Korean Won of $39.4 million [31.5 billion Won]. As at July 31, 1999, $18.4 million of these lines were unused and available. Interest is currently payable at variable rates, which are adjusted at periodic intervals, between 7.3% and 10.3%. Certain assets of this subsidiary have been pledged as collateral under certain of these lines of credit.

[g] Interest, net
Net interest expense (income) includes:

[Canadian dollars in thousands]	1999	1998	1997
Interest on long-term debt	$ 2,621	$ 890	$ 843
Other interest income, net - external	(352)	(1,271)	(517)
Interest expense - Magna	26	25	9
Interest, net	$ 2,295	$ (356)	$ 335

9. convertible series preferred shares

The Company is authorized to issue an unlimited number of Preferred Shares in series, but currently has none outstanding.

The previously outstanding Series 1, 2 and 3 Preferred Shares had the following attributes:

- carrying value of $100 per share;
- 6.5% preferential, non-cumulative cash dividend per annum, payable on a fiscal quarterly basis;
- retractable at their carrying value by the holders thereof after August 1, 1997, in the case of the Preferred Shares, Series 1; August 1, 1998, in the case of the Preferred Shares, Series 2; and August 1, 1999, in the case of the Preferred Shares, Series 3;
- redeemable at their carrying value and subject to purchase for cancellation by the Company commencing August 1, 1998; and,
- convertible into Class A Subordinate Voting Shares at a price of $11.025 per share [subject to certain customary antidilutive adjustments].

On June 30, 1998, the holders of all the then issued and outstanding Preferred Shares, Series 1, 2 and 3 exercised the conversion rights attached to these shares and they were converted into 5,349,204 Class A Subordinate Voting Shares.

For purposes of accounting for the Convertible Series Preferred Shares three of the key attributes of these shares were valued as of their date of issuance and were presented separately in the Company's consolidated financial statements. These three key attributes were:

[i] the retraction of the Convertible Series Preferred Shares at their carrying value by the holders;

[ii] the non-cumulative cash dividend payable in respect of the Convertible Series Preferred Shares; and,

[iii] the ability of the holder to convert the Convertible Series Preferred Shares into Class A Subordinate Voting Shares at a fixed price.

The retraction attribute was a liability of the Company because it was at the option of the holder and, accordingly, it was presented as long-term debt. The non-cumulative nature of the dividend meant it was dissimilar to an interest payment on debt and, therefore, the long-term debt was presented as the net present value of (i.e., at a discount to) the carrying value which became payable, at the option of the holder, on the dates indicated above. The resultant discount was amortized to income systematically from the date of issuance until the date of retraction for each series of the Convertible Series Preferred Shares.

The non-cumulative dividend, for reasons indicated above, was not considered debt-related. However, because holders of the Convertible Series Preferred Shares expected to receive dividends and it was the Company's expectation, at the date of issuance, to pay dividends, there was a value to the expected stream of dividend payments. The net present value of this expected dividend stream was, therefore, presented as equity. As dividends were declared, a systematically calculated portion of the dividend was shown as a return of capital and was deducted from the amount presented as equity. The dividends on the Convertible Series Preferred Shares, as presented in the consolidated statements of income and retained earnings, reflect the actual dividend declared net of the amount considered a return of capital.

The third attribute, the conversion feature, was similar to a stock warrant in that it provided holders with the option to exchange their Convertible Series Preferred Shares for Class A Subordinate Voting Shares at a fixed price. The residual approach was used to value this attribute, and this amount was classified as equity in a manner consistent with accounting for stock purchase warrants.

The portion of the Convertible Series Preferred Shares classified as a liability, the amounts reflected as amortization of discount on Convertible Series Preferred Shares and the portion converted to Class A Subordinate Voting Shares are as follows:

	Preferred Shares			
	Series 1	Series 2	Series 3	Total
[Canadian dollars in thousands]				
Balance, July 31, 1996	$ 28,629	$ 18,170	$ 17,256	$ 64,055
Amortization of discount	1,371	893	788	3,052
Conversion to Class A Subordinate Voting Shares *[i]*			(9,910)	(9,910)
Balance, July 31, 1997	30,000	19,063	8,134	57,197
Amortization of discount		857	375	1,232
Conversion to Class A Subordinate Voting Shares *[ii]*	(30,000)	(19,920)	(8,509)	(58,429)
Balance, July 31, 1998 and 1999	$ –	$ –	$ –	$ –

[i] On June 5, 1997, Magna converted 110,250 Preferred Shares, Series 3, into 1,000,000 Class A Subordinate Voting Shares at a price of $11.025. The carrying value on the Company's books on that date of $10.9 million [consisting of a debt portion of $9.9 million, a warrant portion of $0.6 million and a dividend stream portion of $0.4 million] has been reflected as the consideration for the Class A Subordinate Voting Shares issued on the conversion.

[ii] On June 30, 1998, Magna and the other three holders [all related to a director of the Company] converted all remaining Convertible Series Preferred Shares into 5,349,204 Class A Subordinate Voting Shares at a price of $11.025 [of which Magna received 4,447,644]. The carrying value on the Company's books on that date of $59.5 million [consisting of a debt portion of $58.4 million, a warrant portion of $0.7 million and a dividend stream portion of $0.4 million] has been reflected as the consideration for the Class A Subordinate Voting Shares issued on the conversion.

10. capital stock

[a] Class A Subordinate Voting Shares and Class B Shares

Class A Subordinate Voting Shares without par value [unlimited amount authorized] have the following attributes:

[i] Each share is entitled to one vote per share at all meetings of shareholders; and,

[ii] Each share shall participate equally as to cash dividends with each Class B Share.

Class B Shares without par value [unlimited amount authorized] have the following attributes:

[i] Each share is entitled to 10 votes per share at all meetings of shareholders;

[ii] Each share shall participate equally as to cash dividends with each Class A Subordinate Voting Share; and,

[iii] Each share may be converted at any time into fully-paid Class A Subordinate Voting Shares on a one-for-one basis.

In the event that either the Class A Subordinate Voting Shares or the Class B Shares are subdivided or consolidated, the other class shall be similarly changed to preserve the relative position of each class.

Outstanding Class A Subordinate Voting Shares and Class B Shares included in shareholders' equity consists of [Canadian dollars in thousands]:

	Class A Subordinate Voting Shares		Class B Shares	
	Number of shares	Consideration	Number of shares	Consideration
Balance, July 31, 1996	3,729,155	$ 36,593	14,223,900	$ 2,583
Issuance of Class A Subordinate Voting Shares to the Tesma DPSP *[i]*	159,920	1,687		
Treasury offering *[ii]*	3,680,000	66,850		
Conversion of Convertible Series Preferred Shares *[Note 9]*	1,000,000	10,931		
Exercise of Incentive Stock Options *[Note 10[b]]*	33,500	352		
Balance, July 31, 1997	8,602,575	116,413	14,223,900	2,583
Conversion of Convertible Series Preferred Shares *[Note 9]*	5,349,204	59,484		
Exercise of Incentive Stock Options *[Note 10[b]]*	330,500	3,470		
Balance, July 31, 1998	14,282,279	179,367	14,223,900	2,583
Exercise of Incentive Stock Options *[Note 10[b]]*	85,500	898		
Balance, July 31, 1999	**14,367,779**	**$ 180,265**	**14,223,900**	**$ 2,583**

[i] In respect of a portion of the Company's funding obligation to the Tesma DPSP for 1996 [as described in Note 18[c]], 159,920 Class A Subordinate Voting Shares were issued to The Canada Trust Company, as trustee of the Tesma DPSP, at $10.55 per share.

[ii] Details of the proceeds from the 1997 treasury offering of Class A Subordinate Voting Shares are as follows:

[Canadian dollars in thousands]	
Total proceeds - 3,680,000 shares at $18.75 per share	$ 69,000
Underwriters' fee	(2,760)
Other expenses of the issue	(599)
Tax savings in respect of above fee and expenses	1,209
Net proceeds	$ 66,850

[b] Incentive Stock Option Plan

Under the 1995 Incentive Stock Option Plan adopted by the Company on July 19, 1995, as amended and subsequently approved by the shareholders on December 4, 1996, the Company may grant options to purchase Class A Subordinate Voting Shares to present and future officers, directors, other full-time employees or consultants of the Company. The maximum number of shares reserved to be issued for options is 3,000,000 subject to certain adjustments. The number of unoptioned shares available to be reserved at July 31, 1999 was 1,017,500 [1998 – 1,105,000].

The following is a continuity schedule of the options outstanding:

	Number	Range of Exercise Price	Weighted Average Exercise Price	Options Exercisable
Balance, July 31, 1996	950,000	$10.50	$10.50	470,000
Options granted	837,500	$10.50	$10.50	
Options exercised	(33,500)	$10.50	$10.50	
Balance, July 31, 1997	1,754,000	$10.50	$10.50	864,000
Options granted	107,500	$21.70 - $22.50	$22.35	
Options exercised	(330,500)	$10.50	$10.50	
Balance, July 31, 1998	1,531,000	$10.50 - $22.50	$11.33	857,500
Options granted	87,500	$17.25	$17.25	
Options exercised	(85,500)	$10.50	$10.50	
Balance, July 31, 1999	**1,533,000**	**$10.50 - $22.50**	**$11.72**	**1,113,500**

All options granted are for a term of ten years from the date of grant. In general, options vest 20% on the date of the grant and 20% on each of the following four anniversaries of the grant date. However, 750,000 of the options granted in 1997 vest 33 1/3% on the grant date and 16 2/3% on each of the following four anniversaries of the grant.

[c] Maximum Number of Shares

The following table presents the maximum number of shares that would be outstanding if all the outstanding options at July 31, 1999 were exercised:

	Number of Shares
Class A Subordinate Voting Shares outstanding at July 31, 1999	14,367,779
Class B Shares outstanding at July 31, 1999	14,223,900
Options to purchase Class A Subordinate Voting Shares	1,533,000
	30,124,679

11. earnings per share

[a] Basic Earnings Per Share

Earnings per Class A Subordinate Voting Share or Class B Share have been calculated using the weighted average number of Class A Subordinate Voting Shares outstanding during the year, plus the weighted average number of Class B Shares outstanding during the year.

[b] Adjusted Basic Earnings Per Share

Adjusted basic earnings per share are calculated on the same basis as basic earnings per share, except that in 1998 and 1997 the Convertible Series Preferred Shares were assumed to be converted at the beginning of the fiscal year during which their conversion occurred.

	1998	1997
Adjusted basic earnings per Class A Subordinate Voting Share or Class B Share	$ 1.09	$ 1.29
Adjusted basic average number of Class A Subordinate Voting Shares and Class B Shares outstanding during the year *[in millions]*	28.3	19.7

[c] Fully Diluted Earnings Per Share

The calculation of fully diluted earnings per share assumes that, if a dilutive effect is produced, all Convertible Series Preferred Shares had been converted, and all outstanding options had been exercised at the later of the beginning of the year and the issue date. There is an allowance for imputed earnings equal to the amortization of the discount on the Convertible Series Preferred Shares, plus the dividends declared less the portion considered a return of capital and imputed after-tax earnings on the proceeds that would be received through the assumed exercise of the stock options based on an assumed after-tax rate of return of 3.2% for the year ended July 31, 1999 [1998 – 3.0%; 1997 – 2.7%].

12. financial instruments

[a] Hedging

The Company has cash flows denominated in U.S. dollars, German deutschmarks and Italian lira. The Company, including LAP, utilizes foreign exchange forward contracts for the sole purpose of hedging a significant portion of its projected exposure over a five-year period. This exposure is based on U.S. dollar, deutschmark and lira denominated contractual commitments to deliver products to the Company's customers or buy products from the Company's suppliers. As at July 31, 1999, the Company had outstanding foreign exchange forward contracts representing a commitment to sell approximately U.S.$122.1 million, 38.1 million deutschmarks and 27.9 billion lira at weighted average rates of exchange of Cdn.$1.44, Cdn.$0.88 and Cdn.$0.000842, respectively and to buy approximately U.S.$148.8 million and 8.0 million deutschmarks at weighted average rates of exchange of Cdn.$1.45 and Cdn.$0.83, respectively. These contracts mature over the next five years as follows:

	U.S. dollars		Deutschmarks		Italian lira	
[Amounts in millions, except lira in billions and rates]	Amount	Rate	Amount	Rate	Amount	Rate
2000	$U.S. (37.4)	$1.42	DM (15.4)	$0.92	L (12.6)	$0.000840
2000	38.5	1.46	6.5	0.83		
2001	(36.8)	1.43	(16.1)	0.85	(13.1)	0.000845
2001	38.3	1.45	1.5	0.83		
2002	(22.9)	1.45	(6.6)	0.83	(2.2)	0.000834
2002	30.0	1.44				
2003	(18.6)	1.49				
2003	24.0	1.44				
2004	(6.4)	1.47				
2004	18.0	1.43				
	$U.S. (26.7)		DM (30.1)		L (27.9)	

Foreign exchange contracts' fair values represent an approximation of the amounts the Company would have paid to or received from counterparties to unwind its positions prior to maturity. The fair value of the Company's benefit for all foreign exchange contracts at July 31, 1999, was approximately $1.6 million. If these contracts ceased to be effective as hedges [i.e., if the related projected cash flows changed significantly], previously unrecognized gains or losses pertaining to the portion of the hedging transactions in excess of projected foreign denominated cash flows would be recognized in income at the time this condition was identified.

[b] Fair Value

The Company has determined the estimated values of its financial instruments based on appropriate valuation methodologies. However, considerable judgment is required to develop these estimates. Accordingly, these estimated values are not necessarily indicative of the amounts the Company could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair value of each class of financial instrument are discussed below.

Short-term financial assets and liabilities, including cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, are valued at their carrying amounts as presented in the consolidated balance sheets. The carrying values are reasonable estimates of fair value due to the short period to maturity of the financial instruments.

Fair value information is not readily available for the Company's other assets. However, management believes the market value of investments to be in excess of the carrying value. The carrying value of other long-term monetary assets are estimated using current rates and approximate the carrying value for all years.

Rates currently available to the Company for long-term debt with similar terms and remaining maturities have been used to estimate the fair value of the long-term debt which approximates the carrying value for all years, except for the 6.22% Senior Unsecured Notes which have a fair value of approximately $57.3 million at July 31, 1999.

The Company enters into foreign exchange forward contracts to manage foreign currency risk. If the Company did not use forward contracts, its exposure to financial risks would be higher. The Company does not enter into forward contracts for speculative purposes. The fair values of foreign exchange forward contracts represent an approximation of the amounts that the Company would have paid to or received from counterparties to unwind its positions prior to maturity. The fair value of the Company's benefit for all foreign exchange contracts, none of which is recorded, is discussed in Note 12[a].

[c] Credit Risk
The Company's financial assets that are exposed to credit risk consist primarily of cash, accounts receivable and foreign exchange forward contracts with positive fair values.

The Company, in the normal course of business, is exposed to credit risk from its customers substantially all of which are in the automotive industry. These accounts receivable are subject to normal industry credit risks.

Cash which consists of short-term investments, including commercial paper and certified deposits, is only invested in governments and corporations with a minimum credit rating of R1 (low) by the Dominion Bond Rating Service ["DBRS"] or its equivalent and in the United States, banks with a Financial Strength Rating of A by Moody's Investors Service or its equivalent. Credit risk is further reduced by limiting the amount which is invested in any one government or corporation.

The Company is also exposed to credit risk from the potential default by any of its counterparties on its foreign exchange forward contracts. The Company mitigates this credit risk by dealing only with counterparties which are Canadian banks with a minimum credit rating of R1 (mid) by the DBRS or its equivalent and which are included on an authorized list of counterparties maintained by the Company. The Company also monitors its relative positions with each counterparty. The maximum credit risk, based on the theoretical amount, term and exchange rates, amounts to approximately $9.9 million. This risk is divided amongst four financial institutions. The Company does not anticipate non-performance by any of the counterparties to their contractual obligations.

[d] Interest Rate Risk
The Company has historically not utilized interest rate swap agreements to reduce the impact of changes in interest rates upon its floating rate debt as the amount which is floating has been at more favourable rates.

The following table summarizes the Company's exposure to interest rate risk as at July 31, 1999 [Canadian dollars in thousands]:

		Fixed interest rate maturing in				
	Floating rate	1 year or less	1 to 5 years	More than 5 years	Non-interest bearing	Total
Financial assets:						
Cash	$ 78,582					$ 78,582
Accounts receivable					$ 134,395	134,395
Other assets	50		$ 1,500		1,243	2,793
Financial liabilities:						
Bank indebtedness	(30,618)					(30,618)
Accounts payable and all other accrued liabilities and payables		$ (753)			(150,536)	(151,289)
Long-term debt	(18,352)	(4,465)	(7,214)	$ (62,126)	(212)	(92,369)
	$ 29,662	$ (5,218)	$ (5,714)	$ (62,126)	$ (15,110)	$ (58,506)
Average fixed rate of long-term debt		6.46%	8.22%	6.21%		

13. currency translation adjustment
The following is a continuity schedule of the currency translation adjustment account included in shareholders' equity:

[Canadian dollars in thousands]	1999	1998
Balance, beginning of year	$ 2,438	$ (2,382)
Translation adjustments	(2,392)	4,820
Balance, end of year	$ 46	$ 2,438

Unrealized translation adjustments, which arise on the translation to Canadian dollars of assets and liabilities of the Company's self-sustaining foreign operations, resulted in an unrealized currency translation loss of $1.9 million [1998 - gain of $4.8 million] primarily from the weakening of the German deutschmark and other European currencies against the Canadian dollar during the year.

14. research and development
Research and development expenditures, net of amounts funded by governments or customers, for the year ended July 31, 1999 were $13.8 million [1998 - $14.1 million; 1997 - $13.1 million].

15. details of cash from operating activities

[a] Items Not Involving Current Cash Flows

Items not involving current cash flows consist of:

[Canadian dollars in thousands]	1999	1998	1997
Depreciation and amortization	$ 35,391	$ 23,676	$ 19,058
Amortization of discount on Convertible Series Preferred Shares	—	1,232	3,052
Deferred income taxes	4,316	1,377	2,290
Other	1,567	2,371	2,415
	$ 41,274	$ 28,656	$ 26,815

[b] Net Change in Non-cash Working Capital

The net change in non-cash working capital consists of:

[Canadian dollars in thousands]	1999	1998	1997
Accounts receivable	$ (40,034)	$ (11,242)	$ (16,540)
Inventories	(14,212)	(11,951)	2,497
Prepaid expenses and other	(2,827)	1,204	(2,199)
Accounts payable and other accrued liabilities	42,643	14,794	2,379
Accrued salaries and wages	7,141	(867)	325
Income taxes payable (receivable)	7,459	1,707	(7,769)
	$ 170	$ (6,355)	$ (21,307)

16. segmented information

[a] Operating Segments

The Company currently operates in one industry segment, the automotive powertrain business, designing and manufacturing parts and assemblies primarily for the automotive OEMs or their Tier 1 powertrain component manufacturers.

The Company operates internationally and its manufacturing facilities are arranged geographically to match the requirements of the Company's customers in each market. Each manufacturing facility has the capability to offer many different powertrain parts and assemblies as the technological processes employed can be used to make many different parts and assemblies. Additionally, specific marketing and distribution strategies are required in each geographic region. The Company currently operates in four geographic segments of which only two are reportable segments. The accounting policies for the segments are the same as those described in Note 1 to the consolidated financial statements and intersegment sales are accounted for at prices which approximate fair value.

Executive management assesses the performance of each segment based on income before income taxes as the management of income tax expense is centralized.

[Canadian dollars in thousands]	North American Automotive	European Automotive	Other	Total
July 31, 1999				
Total sales	$ 665,590	$ 216,381	$ 17,490	$ 899,461
Intersegment sales	(2,611)	(3,179)	–	(5,790)
Sales to external customers	$ 662,979	$ 213,202	$ 17,490	$ 893,671
Income before income taxes	$ 72,800	$ 11,714	$ (29)	$ 84,485
Fixed assets, net	$ 184,581	$ 52,489	$ 39,227	$ 276,297
Fixed asset additions	$ 52,069	$ 14,302	$ 1,084	$ 67,455
Goodwill, net	$ 18,451	$ 2,049	$ –	$ 20,500
July 31, 1998				
Total sales	$ 466,515	$ 183,541	$ –	$ 650,056
Intersegment sales	(70)	(4,092)	–	(4,162)
Sales to external customers	$ 466,445	$ 179,449	$ –	$ 645,894
Income before income taxes	$ 40,810	$ 9,613	$ (91)	$ 50,332
Fixed assets, net	$ 141,920	$ 44,643	$ 20	$ 186,583
Fixed asset additions	$ 56,338	$ 8,603	$ 19	$ 64,960
Goodwill, net	$ 4,355	$ 2,394	$ –	$ 6,749
July 31, 1997				
Total sales	$ 416,790	$ 139,119	$ –	$ 555,909
Intersegment sales	–	(4,391)	–	(4,391)
Sales to external customers	$ 416,790	$ 134,728	$ –	$ 551,518
Income before income taxes	$ 39,474	$ 6,243	$ –	$ 45,717
Fixed assets, net	$ 103,024	$ 35,418	$ –	$ 138,442
Fixed asset additions	$ 37,702	$ 10,350	$ –	$ 48,052
Goodwill, net	$ 1,276	$ 2,735	$ –	$ 4,011

[b] Geographic and Customer Information
The final destination of the Company's sales to its external customers are as follows:

[Canadian dollars in thousands]	1999	1998	1997
Canada	$ 50,748	$ 45,290	$ 43,998
United States	499,358	303,254	265,324
Europe	287,361	243,291	187,810
Other foreign countries	56,204	54,059	54,386
	$ 893,671	$ 645,894	$ 551,518

In 1999, sales to the Company's four largest customers [including their global subsidiaries] amounted to 35%, 21%, 11% and 11% of total sales [1998 – 30%, 19%, 12% and 7%; 1997 – 31%, 19%, 11% and 8%].

17. related party transactions

The Company completed transactions with Magna and other companies under Magna's control during the year as follows:

[Canadian dollars in thousands]	1999	1998	1997
Sales	$ 18,987	$ 13,509	$ 14,222
Purchases of materials	$ 6,127	$ 6,088	$ 5,547
Interest, affiliation fees and other charges	$ 11,239	$ 8,440	$ 11,605

The outstanding balances related to these transactions at the end of the year are as follows:

[Canadian dollars in thousands]	1999	1998
Accounts receivable	$ 1,989	$ 1,094
Accounts payable	$ 1,934	$ 2,160

The Company is party to an affiliation agreement and other arrangements with Magna that provide for the payment by the Company of an affiliation fee and certain other negotiated charges in exchange for, among other things, Magna granting the Company a non-exclusive world-wide license to use certain Magna trademarks, and Magna providing certain management and administrative services [including, among other things, utilization of Magna's foreign exchange forward credit facilities, if available] to the Company. The affiliation fee is computed solely as a specified percentage of consolidated net sales of the Company. The current affiliation agreement came into effect for a five year term commencing August 1, 1997. Other charges will continue to be negotiated annually and will be based on the level of benefits or services provided by Magna to the Company. Additionally, under the terms of a social fee agreement, the Company pays Magna a fee based on a specified percentage of pretax profits before profit sharing [after adjustments to add back certain amounts specified in the agreement]. This social fee represents a contribution to social and charitable programs coordinated by Magna on behalf of Magna and its affiliated companies including the Company.

Sales to and purchases from Magna and the resulting accounts receivable and payable balances are typically effected on normal commercial terms.

From time to time, the Company makes advances to officers and employees to assist them in the purchase of houses. The balance outstanding from officers at July 31, 1999 was $1.7 million [1998 - $0.7 million]. The current portion of these amounts is included in accounts receivable and the balance in other assets.

18. commitments and contingencies

[a] Operating Leases
The Company had commitments under operating leases requiring future minimum annual rental payments for the years ending July 31 as follows:

[Canadian dollars in thousands]	
2000	$ 5,031
2001	4,001
2002	3,214
2003	2,181
2004	1,642
Thereafter	2,308
	$ 18,377

Approximately 26% [1998 - 28%] of these lease commitments represent the Company's share of commitments of its proportionately consolidated jointly controlled entities.

For the year ended July 31, 1999, payments under operating leases amounted to approximately $5.4 million [1998 - $3.8 million; 1997 - $4.0 million].

[b] Purchase Commitments
As at July 31, 1999, the Company has commitments to purchase fixed assets of approximately $29.9 million.

[c] Corporate Constitution
The Company's Corporate Constitution requires that a portion of the Company's profits be distributed or used for certain purposes, including but not limited to the following:

- allocation or distribution of 10% of pre-tax profits to employees and/or the Tesma Employee Equity Participation and Profit Sharing Program [including the Tesma International Inc. (Canadian) Deferred Profit Sharing Plan ["Tesma DPSP"] and the Tesma International of America, Inc. U.S. Employees' Deferred Profit Sharing Plan ["Tesma U.S. DPSP"] forming part thereof];

- allocation of a minimum of 7% of pre-tax profits to research and development; and

- payment of dividends to shareholders based on a formula of after-tax profits.

[d] Year 2000 Issue
The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Company's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

[e] General
In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to estimate the extent of potential costs and losses, if any, management believes, but can provide no assurance, that the ultimate resolution of such contingencies would not have a material adverse effect on the consolidated financial position of the Company.

19. litigation settlement
In October 1997, the Company signed a settlement agreement with Stant Manufacturing Inc. ["Stant"] relating to a July 1997 verdict which upheld three U.S. patents owned by Stant. The settlement permits the Company to continue to supply fuel caps for the duration of a pre-existing long-term supply contract with an OEM. In 1998, the Company recorded a $9.1 million provision for all costs relating to the settlement.

20. united states generally accepted accounting principles
The Company's consolidated financial statements are prepared using accounting policies generally accepted in Canada ["Canadian GAAP"] which conform with accounting principles generally accepted in the United States ["United States GAAP"] except for the following:

[a] Deferred Taxes
Under United States GAAP the income tax provision would be calculated using the liability rate method.

[b] Earnings Per Share
The calculation of basic earnings per share would be calculated using the weighted average number of common shares outstanding during the year. The calculation of diluted earnings per share requires the use of the treasury stock method to calculate the weighted average number of outstanding shares, if there is a dilutive effect on the assumed exercise of stock options. The difference between the number of fully diluted shares outstanding under Canadian GAAP and diluted shares outstanding under United States GAAP is entirely attributable to differing treatment of stock options.

[c] Employee Share Loans
Loans to employees which were provided for the purpose of purchasing Class A Subordinate Voting Shares would be shown as a reduction of the Class A Subordinate Voting Shares.

[d] Financial Instruments
Under United States GAAP, the Company would not have accounted for the Convertible Series Preferred Shares as part equity and part debt based on their three key attributes as required under Canadian GAAP. Under Canadian GAAP, the dividend on the Convertible Series Preferred Shares is presented net of an assumed return of capital and the discount on the portion of the Convertible Series Preferred Shares classified as debt is amortized to income. Under United States GAAP, the entire dividend is presented on the consolidated statements of income and because the financial instrument would be recorded at its face value as debt, no amounts would be reflected as a return of capital, nor would any discount be amortized to the consolidated statements of income.

[e] Deferred Preproduction Costs
Under United States GAAP, the Company would have expensed all preproduction costs as incurred.

[f] Joint Ventures
The Company would account for its investment in its jointly controlled entities using the equity method. However, a reconciliation from the proportionate consolidation method to the equity method of accounting for the Company's investment in its jointly controlled entities has not been provided as it is not required under United States securities regulations.

[g] Gains on Translation of Long-Term Debt
Under United States GAAP gains and losses arising on the translation, at exchange rates prevailing on the balance sheet date, of long-term debt are included in income. Under Canadian GAAP these amounts are deferred and amortized.

[h] Statements of Income
The following table presents net income and earnings per share information following United States GAAP:

[Canadian dollars in thousands, except per share figures]	1999	1998	1997
Net income attributable to Class A Subordinate Voting Shares and Class B Shares under Canadian GAAP	$ 52,334	$ 26,778	$ 24,614
Adjustments:			
Deferred preproduction costs	(2,515)	(1,790)	
Amortization of deferred preproduction costs	430	–	–
Unrealized exchange gain on translation of foreign denominated long-term debt	160	-	–
Amortization of discount on Convertible Series Preferred Shares	–	1,232	3,052
Return of capital on Convertible Series Preferred Shares	–	(1,542)	(2,811)
Net income attributable to Class A Subordinate Voting Shares and Class B Shares under United States GAAP	$ 50,409	$ 24,678	$ 24,855
Earnings per Class A Subordinate Voting Share or Class B Share			
Basic	$ 1.77	$ 1.05	$ 1.32
Diluted	$ 1.73	$ 1.00	$ 1.15
Weighted average number of Class A Subordinate Voting Shares and Class B Shares outstanding during the year *[in millions]*			
Basic	28.5	23.4	18.8
Diluted	29.2	29.1	25.6

[i] Balance Sheet Items
Under United States GAAP, the Company's deferred tax liabilities consist of the following temporary differences:

[Canadian dollars in thousands]	1999	1998
Tax deferred income	$ 10,876	$ 9,798
Tax depreciation in excess of book depreciation	19,398	13,811
Tax losses	(10,734)	(11,406)
Valuation allowance	7,829	8,501
	$ 27,369	$ 20,704

The following table presents shareholders' equity under United States GAAP:

[Canadian dollars in thousands]	1999	1998
Class A Subordinate Voting Shares	$ 179,851	$ 178,953
Class B Shares	2,583	2,583
Retained earnings	118,204	76,619
Accumulated comprehensive income	46	2,438
	$ 300,684	$ 260,593

[j] Comprehensive Income

[Canadian dollars in thousands]	1999	1998	1997
Net income attributable to Class A Subordinate Voting Shares and Class B Shares under United States GAAP	$ 50,409	$ 24,678	$ 24,855
Adjustments:			
Unrealized foreign exchange gains (losses) on translation of self-sustaining foreign operations	(1,925)	4,820	(5,255)
Comprehensive income attributable to Class A Subordinate Voting Shares and Class B Shares under United States GAAP	$ 48,484	$ 29,498	$ 19,600

[k] Stock Based Compensation
The Company continues to measure compensation cost related to awards of stock options using the intrinsic value based method of accounting as prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees" as permitted by SFAS 123. In this instance, however, under SFAS 123 "Accounting for Stock Based Compensation", the Company is required to make proforma disclosures of net income attributable to Class A Subordinate Voting Shares and Class B Shares and basic and diluted earnings per Class A Subordinate Voting Share or Class B Share as if the fair value method of accounting had been applied.

The fair value of the stock options is estimated at the date of grant using the Black Scholes option pricing model with the following weighted average assumptions:

	1999	1998	1997
Risk free interest rate	5.6%	5.2%	5.7%
Expected dividend yield	1.6%	1.3%	2.5%
Expected volatility	26%	27%	25%
Expected life of options (years)	5	5	5

The Black Scholes option valuation model used by the Company to determine fair values, as well as other currently accepted option valuation models were developed for use in estimating the fair value of freely traded options which are fully transferable and have no vesting restrictions. In addition, this model requires the input of highly subjective assumptions, including future stock price volatility and expected time until exercise. Because the Company's outstanding stock options have characteristics which are significantly different from those of traded options, and because changes in any of the assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

Accordingly, for purposes of proforma disclosures, the Company's net income attributable to Class A Subordinate Voting Shares and Class B Shares and basic and diluted earnings per Class A Subordinate Voting Share or Class B would have been:

[Canadian dollars in thousands, except per share figures]	1999	1998	1997
Proforma net income attributable to Class A Subordinate Voting Shares and Class B Shares	$ 49,812	$ 24,194	$ 23,860
Proforma earnings per Class A Subordinate Voting Share or Class B Share			
Basic	$ 1.75	$ 1.03	$ 1.27
Diluted	$ 1.71	$ 0.98	$ 1.12

[l] Interest Paid
Interest paid (received) in cash was $1.4 million for 1999 [1998 - $(0.4) million; 1997 - $0.3 million].

[m] Recently Issued Pronouncements
Under SAB 74, the Company is required to disclose certain information related to new accounting standards which have not yet been adopted due to delayed effective dates. Specifically, SFAS 133 "Accounting for Derivative Instruments and Hedging Activities" is effective for fiscal periods beginning after June 15, 2000 as per SFAS 137 "Accounting for Derivative Instruments and Hedging Activities Deferral of the Effective Date of SFAS 133". The Company has not yet determined the impact, if any, of SFAS 133 on its consolidated financial statements.

21. comparative consolidated financial statements

The comparative consolidated statements of cash flows have been restated to separately disclose the effect of exchange rate changes on cash and cash equivalents and to exclude certain non-cash investing and financing transactions as required by new accounting recommendations issued by The Canadian Institute of Chartered Accountants.

Certain other comparative figures have been reclassified to conform to the current year's method of presentation.

8 year financial summary and quarterly information

operations data

Years Ended July 31st	1999	1998	1997	1996	1995	1994	1993	1992
[Canadian dollars in thousands, except per share figures]								
Sales	$ 893,671	$ 645,894	$ 551,518	$ 455,580	$ 344,908	$ 280,343	$ 223,761	$ 167,667
Income before litigation settlement, equity losses, income taxes and minority interest	$ 84,485	$ 59,464	$ 45,717	$ 35,287	$ 30,916	$ 31,707	$ 25,283	$ 7,893
Net income	$ 52,334	$ 29,654	$ 26,478	$ 19,495	$ 14,807	$ 19,497	$ 22,278	$ 6,833
Net income attributable to Class A Subordinate Voting Shares and Class B Shares	$ 52,334	$ 26,778	$ 24,614	$ 18,539	$ 14,807	$ 19,497	$ 22,278	$ 6,833
Earnings per Class A Subordinate Voting Share or Class B Share								
Basic	$ 1.83	$ 1.14	$ 1.31	$ 1.03	$ 1.04	$ 1.37	$ 1.57	$ 0.48
Fully diluted	$ 1.76	$ 1.05	$ 1.13	$ 0.91	$ 1.03	$ 1.37	$ 1.57	$ 0.48
Average number of Class A Subordinate Voting Shares and Class B Shares outstanding								
Basic	28,527,248	23,425,123	18,809,515	17,953,055	14,223,900	14,223,900	14,223,900	14,223,900
Fully diluted	30,118,910	30,016,657	26,604,984	25,124,042	14,450,036	14,223,900	14,223,900	14,223,900
Cash flow from operating activities	$ 93,778	$ 51,955	$ 31,986	$ 38,095	$ 29,551	$ 23,500	$ 37,822	$ 9,650
Cash dividends paid per Class A Subordinate Voting Share or Class B Share *(1)*	$ 0.31	$ 0.22	$ 0.20	$ 0.15	–	-		–

financial position

As at July 31st	1999	1998	1997	1996	1995	1994	1993	1992
[Canadian dollars in thousands, except per share figures and debt to capitalization ratio]								
Cash (net of bank indebtedness)	$ 47,964	$ 37,996	$ 68,341	$ 28,641	$ 37,898	$ (3,022)	$ 5,533	$ 2,874
Total assets	$ 607,303	$ 399,331	$ 349,495	$ 258,421	$ 245,798	$ 127,448	$ 101,554	$ 78,009
Capital expenditures	$ 69,669	$ 64,960	$ 48,052	$ 29,175	$ 28,318	$ 15,778	$ 7,123	$ 2,406
Long-term debt (excluding current portion)	$ 82,340	$ 14,019	$ 13,358	$ 15,934	$ 20,230	$ 34,448	$ 48,183	$ 59,064
Convertible Series Preferred Shares	$ –	$ –	$ 57,197	$ 64,055	$ 61,067	$ –	$ –	$ –
Shareholders' equity (deficit)	$ 303,489	$ 261,473	$ 174,931	$ 83,430	$ 71,711	$ 38,704	$ 20,181	$ (15)
Equity per Class A Subordinate Voting Share or Class B Share *(2)*	$ 10.61	$ 9.17	$ 7.66	$ 4.65	$ 3.99	$ –	$ –	$ –
Long-term debt (excluding current portion) to total capitalization ratio *(3)*	0.21:1	0.05:1	0.07:1	0.16:1	0.22:1	0.47:1	0.70:1	1.00:1

(1) excluding all dividends paid prior to the completion of Company's Initial Public Offering in July 1995.
(2) numbers prior to the completion of the Company's Initial Public Offering in July 1995 are not meaningful.
(3) total capitalization is the sum of long-term debt (excluding current portion) and shareholders' equity (deficit).

quarterly financial information (unaudited)

[Canadian dollars in thousands, except per share figures]

Fiscal 1999	October 31	January 31	April 30	July 31	Total
Sales	$ 204,589	$ 191,214	$ 251,711	$ 246,157	$ 893,671
Income before income taxes	19,466	17,818	24,928	22,273	84,485
Net income	11,838	11,236	15,533	13,727	52,334
Basic earnings per Class A or B share	$ 0.42	$ 0.39	$ 0.54	$ 0.48	$ 1.83
Fully diluted earnings per Class A or B share	$ 0.40	$ 0.38	$ 0.52	$ 0.46	$ 1.76

Fiscal 1998	October 31	January 31	April 30	July 31	Total
Sales	$ 153,429	$ 149,390	$ 181,711	$ 161,364	$ 645,894
Income before income taxes	6,996	13,342	18,966	11,028	50,332
Net income	3,471	8,037	11,273	6,873	29,654
Basic earnings per Class A or B share	$ 0.13	$ 0.31	$ 0.46	$ 0.24	$ 1.14
Fully diluted earnings per Class A or B share	$ 0.13	$ 0.29	$ 0.39	$ 0.24	$ 1.05

Fiscal 1997	October 31	January 31	April 30	July 31	Total
Sales	$ 136,306	$ 118,020	$ 150,882	$ 146,310	$ 551,518
Income before income taxes	11,874	10,933	13,419	9,491	45,717
Net income	6,723	6,008	8,013	5,734	26,478
Basic earnings per Class A or B Share	$ 0.35	$ 0.30	$ 0.42	$ 0.24	$ 1.31
Fully diluted earnings per Class A or B share	$ 0.30	$ 0.26	$ 0.34	$ 0.23	$ 1.13

corporate constitution

Tesma's Corporate Constitution includes these principles:

Employee Equity and Profit Participation

10% of Tesma's profit before tax is allocated each year to employees, recognizing length of service, as cash distributions and as contributions to Tesma deferred profit sharing plans (which invest primarily in Tesma Class A shares).

Shareholder Profit Participation

In accordance with a prescribed formula, Tesma distributes on average, 20% of the Company's annual net profit to its shareholders.

Management Profit Participation

To obtain long-term contractual commitment from senior management, the Company provides a compensation arrangement which allows for the distribution to corporate management of up to 6% of Tesma's annual profit before tax.

Research & Development

Each year, Tesma allocates 7% of its profit before tax for research and development to ensure the long-term viability of the Company.

Social Responsibility

Tesma allocates up to 2% of its profit before tax for charitable, educational and political purposes to support the basic fabric of society.

Taxes and Reinvestment

The balance of Tesma's profit before tax is allocated each year for future growth, reinvestment and taxes.

Minimum Profit Performance

Management has an obligation to produce a profit. If Tesma does not generate a minimum after-tax return of 4% on share capital for two consecutive years, the Class A shareholders, voting as a class, will have the right to elect additional directors.

Unrelated Investments

Class A and Class B shareholders, with each class voting separately, have the right to approve any investment in an unrelated business in the event such investment together with all other investments in unrelated businesses exceeds 20% of Tesma's equity.

Board of Directors

Tesma believes that outside directors provide independent counsel and discipline. A majority of the members of Tesma's Board of Directors must be individuals who are not officers or employees of the Company, at least two of which are required to be complete outsiders. Currently, five of Tesma's eight Board members are outsiders.

employee's charter

Tesma is committed to an operating philosophy which is based on fairness and concern for people. It includes these principles:

Job Security

Being competitive by making a better product for a better price is the best way to enhance job security. Tesma is committed to working together with its employees to help protect their job security. To assist employees, Tesma provides the following:

- Job Counselling
- Training
- Employee Assistance Programs

A Safe and Healthful Workplace

Tesma strives to provide employees with a working environment which is safe and healthful.

Fair Treatment

Tesma offers equal employment opportunities based on an individual's qualifications and performance, free from discrimination or favouritism.

Competitive Wages and Benefits

Tesma will provide employees with information which will enable them to compare their total compensation (wages and benefits) with the total compensation of the Company's business competitors and other plants in the community.
If total compensation is found not to be competitive, then wages will be adjusted.

Employee Equity and Profit Participation

Tesma believes that every employee should own a portion of the Company and provides a method for doing so through the Employee Equity Participation and Profit Sharing Program, including Tesma's deferred profit sharing plans.

Communication and Information

Through regular monthly meetings between management and employees and through publications, Tesma provides employees with information so that they will know what is going on in the Company and within the industry.

The Hotline

To ensure that employees have a method of voicing opinions or solving problems, Tesma provides all employees access to a Hotline. Comments or complaints are recorded and forwarded to the Corporate Employee Relations Department. The Corporate Employee Relations Department is committed to investigating and resolving all employee concerns or complaints within the spirit of this Employee's Charter and the principles of Tesma's Corporate Constitution.

shareholder information

Tesma shares and stock exchange listings

The Class A Subordinate Voting Shares of the Company are listed on the Toronto Stock Exchange under the symbol TSM.A and on the NASDAQ National Market under the symbol TSMA. The Class B Shares are not listed for trading.

Issued and outstanding shares as at July 31, 1999 were as follows:

- Class A Subordinate Voting Shares 14,367,779
- Class B Shares 14,223,900

The Class A Subordinate Voting Shares carry one vote per share, while the Class B Shares carry 10 votes per share.

As of July 31, 1999 there were 113 registered holders of Class A Subordinate Voting Shares.

Magna International Inc. owns directly and indirectly, all Class B Shares and 4,447,644 of the Class A Subordinate Voting Shares carrying approximately 93.7% of the total votes attaching to all outstanding shares of the Company.

distribution of shares

country	%
Canada	92.2
United States	1.4
Other	6.4

dividends

The Company pays cash dividends on a quarterly basis upon declaration by the Board of Directors. Each of the Class A Subordinate Voting Shares and Class B Shares participate equally as to dividends. Effective with the July 15, 1999 dividend payment, the current quarterly dividend rate was set at $0.10 per share, prior to this date the rate had been $0.07 per share. Dividends are paid on or about the 15th of January, April, July and October in each fiscal year with a record date on or about the last business day of December, March, June and September.

payments of dividends to non-residents

Shareholders with addresses of record in the United States receive dividends in U.S. funds. The dividend amount is converted at the Bank of Canada noon rate of exchange on the record date. All other non-resident shareholders may elect to receive dividends in U.S. or Canadian funds. In all cases the applicable Canadian withholding tax is deducted.

registrar and transfer agent

Canada - Class A: Montreal Trust Company of Canada, Toronto
U.S.A. - Class A: The Bank of Nova Scotia Trust Company of New York, New York

principal bankers

Canadian Imperial Bank of Commerce, Toronto, Canada

auditors

Ernst & Young LLP, Toronto, Canada

corporate office locations

99 Ortona Court	800 Tesma Way
Concord, Ontario L4K 3M3	Concord, Ontario L4K 5C2
Telephone: 905-669-5444	Telephone: 905-303-2300
Telefax: 905-738-4888	Telefax: 905-303-9792

corporate governance

A report on the Company's corporate governance practices is included in the management information circular and proxy statement enclosed with the Annual Report mailed to shareholders.

aif/form 40-F

The Company files an Annual Information Form with Canadian Provincial securities regulators and a Report on Form 40-F with the U.S. Securities and Exchange Commission. Copies of these documents are available to shareholders, free of charge, upon written request to the Company.

shareholder account inquiries

The Montreal Trust Company of Canada operates an information service for inquiries regarding changes of address, stock transfers, registered shareholdings, dividends and lost certificates, which can be reached by dialing **416-981-9633**/toll free **1-800-663-9097** or by e-mail at **faq@montrealtrust.com**.

investor information

Registered shareholders of the Company and non-registered shareholders on our supplementary mailing list automatically receive Tesma's Annual and Quarterly Reports. If you wish to be placed on our supplementary mailing list, please contact Lynn Lewochko at:

P.O. Box 895, Maple, Ontario L6A 1S8
Telephone: 905-669-7360 Telefax: 905-738-1248
email: **lynn.lewochko@tesma.com**

For additional information concerning the Company, please contact Anthony E. Dobranowski, Executive Vice President & Chief Financial Officer at:

P.O. Box 895, Maple, Ontario L6A 1S8
Telephone: 905-669-7355 Telefax: 905-738-1248
email: **tony.dobranowski@tesma.com**

corporate directory

left to right: Pat Cerullo, Jim Moulds, Steve Proniuk, Fred Gingl, Tony Dobranowski, Dave Carroll

officers

Manfred Gingl
President & CEO

Anthony E. Dobranowski
Executive Vice President & CFO

David J. Carroll
Vice President, Planning & Corporate Development

Pasquale Cerullo
Vice President, Sales & Marketing

James L. Moulds
Vice President, Finance & Controller

Stefan T. Proniuk
Vice President, Secretary & General Counsel

board of directors

Donald J. Walker (1) (3), President & CEO
Magna International Inc.

Manfred Gingl, President & CEO
Tesma International Inc.

Georg Grammer, Chairman
Grammer AG

Oscar B. Marx, III (5), President & CEO
TMW Enterprises, Inc.

J. Robert S. Prichard (4) (5), President
University of Toronto

Robert K. Rae (4), Partner
Goodman, Phillips & Vineberg

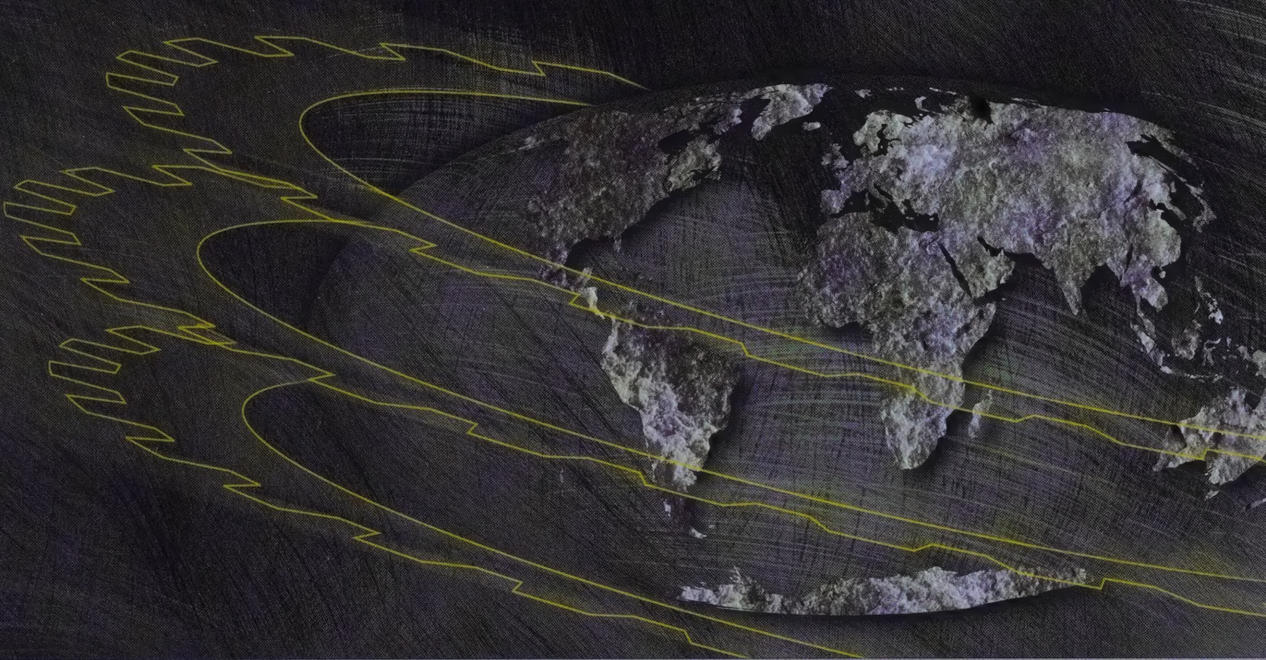
Frank Stronach, Chairman of the Board
Magna International Inc.

Judson D. Whiteside (2), Chairman & CEO
Miller Thomson

(1) Chairman of the Board
(2) Chairman of the Audit Committee
(3) Chairman of the Human Resources & Compensation Committee
(4) Member of the Audit Committee
(5) Member of the Human Resources & Compensation Committee

tesma

around the world



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